



**Writings and Speeches of  
Professor D. R. Gadgil  
on Economic and Political Problems**

**Gokhale Institute of Politics and Economics, Pune.**









*Gokhale Institute Studies No. 65*

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PROFESSOR D. R. GADGIL  
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Edited by  
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Pune 411 004

**Orient Longman Limited**

Bombay Calcutta Madras New Delhi Bangalore Hyderabad Patna

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1981

ORIENT LONGMAN LIMITED

*Regd. Office :*

3/5 Asaf Ali Road, New Delhi 110 002

*Regional Offices :*

R. Kamani Marg, Ballard Estate, Bombay 400 038

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80/1 Mahatma Gandhi Road, Bangalore 560 001

3-5-820 Hyderguda, Hyderabad 500 001

S. P. Verma Road, Patna 800 001

*Printed in India*

by Nagin B. Shah at Sangam Press Pvt. Ltd., 17-B Kothrud, Pune 411 029 and  
published by Nilakantha Rath at Gokhale Institute of Politics and Economics,  
Pune 411 004.

## FOREWORD

This is the fourth and final volume of the Writings and Speeches of Professor D. R. Gadgil in English. In 1961 the Institute published a collection of his writings entitled *Planning and Economic Policy in India*. In 1972 we brought out a revised and enlarged edition of the same which includes his important writings and speeches upto the time of his joining the Planning Commission. In 1973 we published another volume entitled *Writings and Speeches of Prof. D. R. Gadgil on Planning and Development (1967-71)*, which brought together his writings and speeches during the period he was Deputy Chairman of the Planning Commission. The third volume, published in 1975, brought together his writings and speeches on Co-operation, a field in which he made major contributions both in theory and practice. The volume was entitled *Writings and Speeches of Professor D. R. Gadgil on Co-operation*. The present volume brings together a large number of monographs, articles, notes and speeches on a wide variety of subjects by Professor Gadgil over a period of 40 years, 1931-1971.

The volume is divided into two parts: part one on matters economic and part two on matters political and educational. The writings on economic problems cover many fields of economic policy. One of the subjects of his early and sustained interest was the salaries and allowances of public officials in India. The first monograph he wrote on the subject in 1931 and the subsequent essays and memoranda on the subject till 1965 are reprinted here. Another set of essays relates to agricultural price policy and controls, matters with which Prof. Gadgil was closely associated during the years of the Second World War and later. There are also his essays on agricultural finance, ceiling on land holding, Gramdan, and on district development planning which was a subject of his deep interest. Besides, there are expository essays on structure of India's economy, the Reserve Bank's monetary policy and a preliminary monograph on the rise of modern business in India, published earlier.

The subject of political organisation that occupied his attention the most was the Federal Structure of the Indian polity; one set of the essays included in the second part of the volume relates mainly to this. The essays on educational policy are largely in the nature of memoranda submitted to the successive Education Commissions.

Three of the monographs and lectures by Prof. Gadgil, separately published earlier by the Institute, have been reprinted in this volume. These

have been out of print for a long time and it was considered useful and appropriate to reprint them here.

The printing of the volume was delayed due to non-availability of some type faces. Hence the type faces used for printing the second part are unavoidably somewhat different from that in the first part.

With the publication of this fourth and the last volume of Prof. Gadgil's writings and speeches in English, and the earlier two volumes of his writings and speeches in Marathi, the task of bringing together his essays is completed. We trust the collection of the essays of this outstanding scholar of the Indian economy and society over a period of 40 years will be welcomed by all.

Gokhale Institute of  
Politics and Economics  
Pune 411 004  
May, 1981

Nilakantha Rath  
Director

## PREFACE

This is the fourth and the last volume in the series of Selected Writings and Speeches of Professor D. R. Gadgil. The earlier volumes in the series are *Planning and Economic Policy in India* (1972), *Writings and Speeches of Professor D. R. Gadgil on Planning and Development: 1967-1971* (1973) and *Writings and Speeches of Professor D. R. Gadgil on Cooperation* (1975). The material that was not included in the above three volumes was wide-ranging in the coverage of the subjects of discourse as well as in time. It was available in the form of notes, addresses, speeches, articles, etc., and was compiled from periodicals and other publications and personal records of Prof. Gadgil. The number of published and unpublished articles etc., totalled upto nearly double the number included in the present collection. The selection was made with a view to ensuring that his contributions to methodology and to socio-political thinking are included. Attempt is made to avoid repetition as far as possible; however when he dealt in depth with a specific issue and developed various aspects of the issue at hand on different occasions in the form of notes, memorandum, articles, etc., certain amount of repetition became inevitable, e.g. his notes, articles and booklets on the issue of Reorganization of States and formation of Samyukta Maharashtra.

The material in this volume is organised in two parts. The first part includes his articles on economic problems and policies. These were written over a period of about 40 years (1931-1971) and touch upon problems of rural life, price policy, salary levels, certain economic policy issues, e.g., controls, regulation of credit, intermediate technology, etc. The articles relating to economic problems and policies are grouped subjectwise, and within each subject-head the articles are arranged chronologically.

The first publication of the Gokhale Institute of Politics and Economics which appeared in 1931 viz., *The Salaries of Public Officials in India*, by Prof. Gadgil is included in full in the present volume. This together with his 'Memorandum on Scales of Salaries' submitted to the Central Pay Commission in 1946 and his article on 'Ex-colonial and new income differentials in India' provide a full exposition of his views on the issue of salary levels which he considered to be a crucial variable in the determination of wages and income structure in India. Prof. Gadgil viewed district development planning as an essential and vital element in the formulation of national plans. He wrote extensively on this subject, particularly in the context of



the preparation of the Wardha district plan. The Kale Memorial Lecture which he delivered in 1966 dealt with district development planning and was published by the GIPE. That publication is now out of print; the text of the lecture is included in full in the present volume. Various notes and write-ups prepared in relation to the formulation of the Wardha Plan are not included as it was felt that his basic formulations on district development planning and methodology in plan formulation are best summed up in the Kale Memorial Lecture. Similar considerations governed exclusion of a number of other articles and notes.

The present volume includes the monograph on "Origins of the Modern Indian Business Class". Prof. Gadgil had planned a comprehensive study of the Indian business communities and the work on the project was started in 1950. However, Prof. Gadgil was not able to work on this project on a sustained basis and it was his hope to complete the work, which was still in the form of drafts, notes, etc. when he would be free from the responsibilities of executive positions. This, however, was not to materialise. Only a part of the work could be published in the form of an Interim Report in 1959; this report is included in the present volume.

The Second part includes Prof. Gadgil's articles and addresses on educational policy and his writings on some political questions. The material on educational policy is in the form of a critical review of the report of 'The Committee on Vocational Training in Primary and Secondary Schools' (Joshi Committee, 1938), memoranda submitted to the 'University Education Commission' (1948) and the Education Commission (1964-1966), and a review of the report of The Education Commission.

In relation to political questions his main pre-occupation in the immediate pre-independence period was with the constitution of Federating Units in India and the powers and functions, of the Federal, State and the Local Governments. He participated in the work of Samyukta Maharashtra Parishad and some of his writings in the period 1946-1948 were in response to the current vital issues, notably his pamphlet, *The Future of Bombay City*.

The writings and speeches included in the present volume have been published over a period of 40 years and have appeared in a variety of journals or under other auspices. Obviously, the style and manner of presentation varied considerably. In preparation of the present volume editing was kept to the minimum and the articles are published basically as they appeared originally.

## ACKNOWLEDGEMENTS

The notes, articles etc., have been reproduced in this publication as originally written, except for occasional verbal emendation. We acknowledge with thanks the courtesy shown by the following for permission to include in this publication material originally presented to them and published by them.

The Editor, *The Annals of the American Academy of Political and Social Science*, for: 'Problems of Rural Life'.

The Editor, *The Indian Journal of Agricultural Economics*, for: 'Gramdan: Implications and Possibilities' and 'A Ceiling on Holding Agricultural Land in India'.

The Editor, *The Economic Weekly*, for: 'The Shifting Fortunes of Agriculture—the Experience of Less Fully Developed Countries' and 'Price Policy for Foodgrains: Its Implications'.

Food and Agriculture Organization of the United Nations for: 'Integration of Settlement Policies in the Economic and Social Development of the Countries'.

The Editor, *Opinion*, for: 'A Sugar Policy for India' and 'Our Educational Policy' (being the memorandum submitted to the Education Commission).

The Editor, *Maharashtra Co-operative Quarterly*, for: 'Some Basic Aspects of Indian Food Policy'.

The Editor, *Co-existence*, for: 'Ex-colonial and New Income Differentials in India'.

The Editor, *The Servant of India*, for: 'The Economic Programme of the Congress' and 'The Reserve Bank'.

Duke University Press, Durham, North Carolina, U.S.A., for: 'Indian Economic Organization'.

Central Directorate, State Bank of Pakistan, Karachi, for: 'Financing Development in the Public Sector and Public Enterprises'.

Gandhian Institute of Studies for: 'Intermediate Technology: Why and How?'

Servants of India Society for: 'Gokhale as an Economist'.

The Editor, *Mahratta Annual*, 1967, for: 'Requirements of Industrial Regulation'.

The Indian Society of Agricultural Economics for: 'Institutional Changes for Agricultural Marketing'.

Institute of Pacific Relations for: 'Origins of the Modern Indian Business Class – an Interim Report'.

The University of Poona for: 'Convocation Address', 1966.

The Indian Council of Social Science Research for: 'Research in Social Sciences'.

University Education Commission for: 'Memorandum to the University Commission'.

The Editor, *India Quarterly*, for: 'The Scope of Union Subjects'.

The Editor, *Quest*, for: 'Emotional Integration'.

The Editor, *The Realist*, for: 'Violence in Public Life'.

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**PART I**

**ECONOMIC PROBLEMS AND POLICIES**

The present volume brings together Selected Writings and Speeches of Prof. D. R. Gadgil pertaining to the broad theme of economic development and social change. The volume contains 42 articles dealing with diverse facets of the questions in the field of economic problems and planning, educational policy and political and economic aspects of the reorganization of Indian States. Prof. Gadgil was occupied, for a period of about 40 years (1931-1971) with the problem of transition of the Indian Society from a traditional closed society to a modern open society. This implied rejection of the traditional hierarchical caste system that regulated the whole pattern of social life and the values of privilege and ranking inherent in it and acceptance of new sets of values of competition and contractual socio-economic relations. Prof. Gadgil's search for solutions that would make the transition not-so-violent and not-so-painful is reflected in his writings and speeches. The problems of transformation faced in relation to agrarian structure, industrial development, monetary and pricing policy, salary determination, educational system, formation of federal units are discussed by Prof. Gadgil keeping in view the specificity of the Indian socio-economic reality, and policy measures are indicated so as to achieve change in the desired direction. The articles contained in this volume share the insight into the Indian social problems and the objective and rigorous analytical method so very characteristic of Prof. Gadgil's writings. It is hoped that the bringing together of his writings and speeches on diverse aspects of Indian socio-economic life would help the reader in better understanding the myriad of problems in the transformation of the Indian society.

## PROBLEMS OF RURAL LIFE\*

INDIA is a vast country with a large population and diverse geographic and climatic conditions. In writing of Indian rural problems it therefore becomes necessary to take account of extremely varying types of agricultural regions. This diversity may be indicated by describing the salient features of some of the most important regions.

### *Rainfall and Irrigation*

Beginning with the northwest, we have the area of Western Punjab and Sind, which is an arid tract with an average annual rainfall of less than 10 inches, and in which agriculture is dependent entirely on artificial irrigation. The irrigation system of Sind dates from very ancient times, but has been extended considerably in the modern period. West Punjab irrigation is entirely a product of the last fifty years. It has been only in these parts that considerable new areas have been brought under cultivation in modern times.

In contrast with the new settlements of West Punjab, Eastern Punjab and the Gangetic Plains of the United Provinces are very ancient agricultural lands. They are endowed with a rich soil and a comparatively plentiful and dependable rainfall which can be supplemented by the help of both canal and well irrigation. These characteristics, with the exception of canal irrigation, are shared by the neighbouring province of Bihar. The deltaic lands of the Ganges and the Brahmaputra, which are indicated broadly by the term East Bengal, are regions of rich soil and heavy rainfall. These constitute, therefore, a typical rice region, with the added advantage of having almost a monopoly of the valuable agricultural product, jute.

Farther to the east, Assam has rich rice valleys and the hilly tea region. Along the east coast the deltaic regions of Orissa and the Andhra and the Tamil country have a rice economy whose extent and security are guaranteed by considerable irrigation works at the mouths of the large rivers flowing through them. Along the west coast the heavy rainfall tract is narrower. At the extreme south of this coast is the rich garden land of Travancore and Malabar. North-

\* Written in the pre-partition days and published in *The Annals of the American Academy of Political and Social Science*, Vol. 233, May 1944, pp. 84-91.



ward, though the rainfall remains heavy and secure, the land strip becomes poorer in quality until very poor soils are reached in North Konkan.

The Deccan Plateau and the Central India Plateau comprise soil regions of greatly varying fertility, but they are characterized over the whole area by a comparative absence of irrigation facilities and large dependence on the annual rainfall. Further, this annual precipitation has varying degrees of precariousness over the larger part of this tract. It is within this area that famines have been most frequent and most severe. The lands of Gujarat, with a moderate rainfall and with little irrigation, are yet among the richest in the country, while the contiguous region of Rajputana is, for most part, a desert.

The diversity of conditions may be further explained by reference to a variety of features, the main among which are the extent and dependability of the annual rainfall, and the extent of double cropping. Connected vitally with all these phenomena are the density and movement of the population in the different regions. The average regional rainfall varies from 10 inches in Sind to over 100 inches in East Bengal and Travancore. Contrast in its dependability is indicated by the fact that in the Indian Peninsula itself the coastal strips almost never experience a failure, while over large parts of the Bombay and Madras Deccan the rainfall is proverbially deficient once every three years.

### *Cropping Facilities*

Some regions are dominated by only one grain crop, as the rice regions of East and West Bengal, the wheat regions of Eastern Punjab and Western Indo-Gangetic Plain of the United Provinces, or some poor parts of the Deccan where little except millet can be grown. In others the dominant crop might be a single cash crop, though this can never take up as great a proportion of the area under cultivation as the single foodgrain crop. The cotton area of South Gujarat or Khandesh and the jute area of East Bengal exemplify this type. Or again, there may be considerably diversified agriculture especially where there are irrigation facilities such as in the eastern coastal strip. And though animal husbandry takes an inferior place in Indian agriculture as a whole, there are tracts like North Gujarat where mixed farming (agriculture and dairy) is the dominant type. Double cropping depends essentially on the nature of the soil and the facilities for irrigating it. In the poorer tracts the fields fail to yield even a single crop for each successive year. On the other hand, in East Bengal as many as three crops may be taken out. The Malabar coast regions exceed even this limit, by harvesting four crops annually.

### *Population Density and Movement*

The density and movement of population are correlated to some extent to all these factors. There are regions like Cochin and Travancore which, even with a density of 1,535 per square mile,<sup>1</sup> have been continuously growing<sup>2</sup> and do not send out many migrants. Other regions, like North and South Bihar and the Central and Eastern Indo-Gangetic Plains of the United Provinces, with high densities, ranging roughly between 950 and 1,080 per square mile, have been stagnant but show evident signs of overcrowding. They are the main centres from which emigrants go out in large numbers. Density by itself is, however, no criterion. The Bombay Deccan, with 297 persons per square mile, seems to be evidently pressed; but Gujarat, with 475 per square mile, does not show signs of strain. The population in the former, however, increased more than twice as much (30 per cent) as that of the latter (12 per cent) from 1881 to 1931. The Brahmaputra Valley, with 1,255 persons per square mile, and Northwest Dry Area, Punjab, with 540 per square mile, attract a considerable number of immigrants, and a major part of the large growth of population<sup>3</sup> in these tracts is attributable to a favourable balance of migration. With these again may be contrasted East Coast Madras, South, with 1,060 per square mile, with an emigration history of two centuries.

### *Small, Fragmented Holdings*

While physical conditions differ so greatly, it is yet possible to talk in some measure about problems of Indian agricultural economy in general because of the similar scale on which the agricultural industry is practised in all regions in India. Barring the plantations and the entirely negligible instances of large estate management, India is par excellence a country of small peasants. Whatever the climatic and cropping conditions and whatever the tenure of the system of land rights, the scale of the individual agricultural enterprise is everywhere very small. Universally, therefore, the problems of Indian agriculture are those of the small peasant and must be visualized from this point of view and solved in the light of his needs and circumstances.

The small scale on which agriculture is conducted in India imposes a limitation on the resources and the technique of the enterpriser. It

<sup>1</sup> All density figures in this paragraph are given per square mile of cultivated area, 1931.

<sup>2</sup> Net reproduction rate of Travancore, 1901-31, 1.8.

<sup>3</sup> 1881-1931, more than 100 per cent.

also results in the farming enterprise being mostly of the family enterprise type. Except in certain areas, where there remain vestiges of serflike systems, problems of agricultural labour do not loom large in this country. The vital problems connected with organization of agriculture are the smallness of the farm unit and the scattered character of its constituent parts. Over the greater part of the country even the small holding of the peasant consists not in a single continuous field but in numerous scattered strips.

This scattering of strips does not originate in communal agriculture, as in Russia or medieval Europe. India has never known anything similar to the open-field cultivation of Europe or the periodic redistribution of lands as in Russia. Farms in this country have been cultivated since very ancient times as individual independent enterprises. The scattering of the strips is chiefly the result of the division through generations of the original large contiguous areas. Its present extent has been measured in some parts of the country, and it has been shown that whether the holding be large or small, it is divided on an average into five to eight strips.

The fragmentation of the holding is obviously wasteful of the cultivator's resources and time, and efforts have been made in some provinces towards consolidation. The efforts have so far been voluntary, though initiated and helped in certain cases by government. The largest measure of success has been obtained in areas like the Punjab, where, in the plains, location does not materially influence returns to agriculture, and where the quality of land is fairly uniform. Where, however, there are considerable differences in quality in the fields of a village, and especially where irrigation is available for certain areas and not for others, the consolidation of the holding in single blocks presents very great difficulties. Some measure of fragmentation introduces in such a case a necessary element of diversification in farming, and also makes for a spreading of risks where there is considerable dependence on rain. So far, efforts towards consolidation have not been intense and have been confined to a few provinces. This may be due to the fact that though the wastage of land and resources due to fragmentation is not negligible, the most considerable wastage, that of time, is not greatly felt by the cultivator, owing to the limited area at his command.

The smallness of the total holding presents a problem which is more fundamental and more intractable. It is wrong in this connection to blame the laws of inheritance. Primo-geniture and similar institutions are after all rare in the world, and a more or less equal division among heirs is a very common rule. Not in all countries, however, is there to be observed a progressive subdivision of agricultural land.

Further, the law of inheritance indicates merely a division of right of ownership, and has no necessary connection with the cultivating unit. As a fact, a large and jointly held cultivating unit has been traditional in India. Its breakup in recent decades is obviously the result of a pressure of population and a lack of alternative employment. Of recent years the concept of the "economic holding" has been much discussed in this connection, and there has been some talk of ensuring it by legislation. Any such effort, however, immediately raises the problem of the displaced population, and it cannot be undertaken except as part of a comprehensive planning of all employment.

### *Property Rights and Tenancy Status*

The problem of consolidation, or of the economic holding, becomes even more complicated in areas where the actual cultivators are in the main tenants. In respect of land tenure systems, India may broadly be divided into two groups of regions: the first, in which the land is owned by the non-cultivating landlord, and the second, in which the land is held directly by the peasant.

In the earlier phase of the conquest of India, British policy favoured the maintenance of a landlord class in the country; and in the present provinces of Bengal, Bihar, and the United Provinces, the landlord system was therefore securely established. At the time of later acquisitions — Madras and Bombay — a school of thought favouring the creation of an independent peasantry had grown up among British administrators. In these provinces, therefore, the revenue system dispensed with any intermediaries and dealt directly with the cultivator. In the territories acquired still later, such as Punjab, Central Provinces, and others, some variants of the two systems were adopted.

It should, of course, be remembered that the nature of the revenue system was not determined entirely by the opinions or prejudices of the new rulers, but was also largely moulded by the historical antecedents of the various regions. The landlord provinces comprised mostly ancient agricultural regions subject to waves of invading settlers from time immemorial. The system of rights of property in land was, therefore, complicated in these regions. The British in the early days took account only of the superior holder, and had even no means, at the time, for recording the extent and the nature of the other rights. A vague guarantee was no doubt given that all these rights would be respected, but no method was devised by which the guarantee could be implemented. It thus happened that, through the chaos of the early settlements and the lack of protection in later times,

rights of inferior holders and cultivating tenants were but precariously maintained.

It was not till the middle of the nineteenth century that the British undertook any tenancy legislation. The first piece of such legislation was enacted in Bengal, and similar provisions were made later for the other landlord provinces. The chief aim of all this legislation was to maintain the customary rights of inferior holders and cultivators, and the method adopted was that of guaranteeing certain rights to persons who could be proved or were supposed to have held land or such rights for a certain period of time. The chief difficulties met with in this legislation, apart from the difficulties of countering evasive practices, were that at least initially it covered a very small class and that it did not necessarily protect the actual cultivator.

The latter difficulty arose because the cultivating tenants were not necessarily and in all regions holders of customary rights; but even where they held such rights, the new rights being alienable property rights attached to persons and not to the cultivating status, they could be contracted away. Because of the chronic poverty and indebtedness of the peasant, they were so contracted away over large areas. The creation of a graded system of rights thus resulted in adding to the stages of infeudation without benefiting in any material degree the actual tiller of the soil. In the Central Provinces the Gordian knot was cut by the adoption of a single type of uniform tenancy right, instead of a gradation of such rights, by making this right inalienable and by strictly regulating sub-leases. The solution was, however, not accepted elsewhere.

In the main landlord provinces it was only after 1920 that attention began to be paid to the problems of the bulk of the peasantry, i.e., the undertenant. The measures devised then and in the next decade complicated the legal structure further in most cases, and did not always afford adequate protection for all the tenants. So long as the right in land is divorced from the cultivating status, every person to whom the right accrues may, according to circumstances, cease cultivating land and become a rent receiver, or sell away the right and be reduced to the status of an unprotected tenant. The law must therefore aim directly at guaranteeing justice and security to the cultivating tenant as such, and for this purpose the most satisfactory system evolved in India so far has been the Central Provinces system.

In the non-landlord provinces, tenancy problems should ordinarily not exist. In these provinces, however, a number of independent cultivators have been reduced to the status of tenants, mainly through the transference of land to moneylenders. The proportion of such tenants varies from region to region, but is substantial almost every-

where. Tenancy legislation for these areas is yet largely in the discussion stage. The only attempt made so far has been the Bombay Act of 1939. Even this act unfortunately followed the entirely inappropriate model of the legislation of landlord provinces, and is thus likely to prove of very limited use.

### *Rural Finance*

The problem of agricultural indebtedness attracted attention earlier, for obvious reasons, in the non-landlord provinces. In the landlord provinces the landlord financed the cultivator in a number of instances. The creditor-debtor relation, in the circumstances, was naturally not visualized as sharply separated from the landlord-tenant relation. Further, the actual cultivator in the landlord provinces did not ordinarily possess a valuable property right in land which he could alienate or offer as a security for his borrowings. It was thus in the provinces where the cultivator possessed such rights that problems connected with the indebtedness of the agriculturist first received attention. They took the most acute form in two regions — pre-canal-irrigation Punjab and the Bombay Deccan — in both of which agriculture had a precarious basis and in which an erstwhile independent peasantry had come to be exploited, under British rule, by a body of alien financiers.

The early legislative experiments made in these two areas for the regulation of rural moneylending were, however, not followed up elsewhere for a very long time. It was not till the acute depression of the last decade that the problem was again squarely faced. At that time, however, the concepts and the methods evolved in other countries to deal with the depression ruled the minds of legislators to such an extent that the long-term problem of Indian rural credit was not seen in its proper perspective. This long-term problem is the problem of affording the minimum essential credit on the best possible terms to agriculturists with very limited repaying capacity, and of adjusting the burden of their old debts in such a manner that it does not permanently hamper their future operations. This involves the double process of an initial adjustment and later recurrent finance. The former is of little use without the latter. The main difficulty in the latter consists in finding a machinery which will not only afford credit at reasonable rates but also, at the same time, limit and regulate it in a positive manner.

With this problem, which is essentially one of the current finance of agriculture, is inevitably connected the question of marketing. The roles of the moneylender and the marketing intermediary are again often inseparable. A financial organization, therefore, also connotes a

marketing organization; and in respect of marketing, the agriculturist in India is even more helpless than with regard to finance. While co-operative credit has made substantial progress at least in certain regions of the country, co-operative marketing markedly lags behind everywhere. Orderly marketing is, then, impossible except for the few regulated markets where marketing practice is defined and weights and measures guaranteed. Such regulated markets are found only in some provinces for one or two staple products. The cultivator thus sells his products not only at perhaps the least favourable time, but also either in an unregulated market or locally to a person who is also often his financier.

### *Facts to be faced*

We thus return to the small scale of the operations of the individual cultivator and the small size of his resources as the central feature and problem of Indian rural economy. All programmes of relief or reconstruction must reckon with this basic fact. In countries somewhat similarly situated, like Russia, two modes of escape from this compelling fact are available. One is the rapid industrialization of the country, which draws away a large mass of the rural population, and the second is the fuller exploitation of the agricultural resources of areas hitherto only partially developed. But neither of these ways out is available in India. The possibilities of the absorption of large numbers of labourers by future industrial expansion are distinctly limited. Internal migration on any large scale has been possible only to the comparatively undeveloped province of Assam and the new Canal Colonies in the Punjab and Sind. The relief afforded by these in the future cannot be expected to be large, and channels of external migration must be taken to be closed, at least for the time being. Under the existing social conditions, therefore, we must plan to increase the income of the peasant, taking for granted the small scale of his operations.

This central problem of Indian agriculture is also sometimes described as the problem of "deficit economy." It is difficult to define the term "deficit economy." What it seeks to convey, however, is that the Indian agricultural enterprise does not yield any positive income to the agriculturist if the normal charges (normal as in Indian conditions) on the enterprise by way of interest on capital invested and remuneration of the unpaid labour of the family are calculated. And this is said to be the case not only under special circumstances of, say, a depression when it was universal, but to be chronic in India.

Careful factual studies of the profitability of farming in India are rare. The elaborate inquiry into the cost of production of sugarcane

and cotton carried out by the Imperial Council of Agricultural Research revealed the existence of such a deficit economy, but these data referred to the years 1933-34 to 1935-36, and thus included years of depressed prices. Other inquiries usually refer to small and not necessarily representative samples. Also, no figures referring to single regions can be held valid for India as a whole. It may, however, be pointed out, by way of illustration, that a survey covering nearly six hundred farming units in one of the more favourably situated parts of the Bombay Deccan revealed an average deficit, on the above basis, of Rs. 99. It also revealed that the total income of the average family, not allowing for interest or unpaid family labour, was Rs. 88. The information relates to the year 1937-38, when the depression had certainly passed away.

This is not the place to enter into the controversy about the legitimacy or the significance of terms like a "chronic deficit economy." What is relevant is that even if the Indian farm is considered not as a commercial enterprise but only as a unit in a system of subsistence economy, the subsistence that it offers to the agriculturist and his family is meager in the extreme.

### *Avenues of Improvement*

The main directions in which efforts for the economic rehabilitation of the peasant could be made are the improvement of the peasant's technique and of his organization. The standard of technique of the Indian peasant is variable from region to region and from community to community. It has however, been generally admitted that where it is developed, it reaches a very high standard and is remarkably well adapted to his circumstances. Again, the Indian peasant has time and again proved his readiness to adopt improvements and innovations when they are demonstrably to his benefit. Illustrations of this can be found in the rapid spread of the groundnut crop in peninsular India, the quick adoption of the iron plough in certain tracts, and the adoption of improved varieties of crops such as cotton, wheat, and others, all over India. It is still true that the standard of cultivation could be appreciably raised in certain areas or communities, and that almost everywhere the use of scientific advances could contribute towards bringing about a series of minor improvements.

The difficulties in the way of bringing this about are twofold. First, applied research must be so directed that it tackles the specific problems of Indian agriculture as they present themselves to the small cultivator. Second, the results of research must be brought to the door of the cultivator and presented to him in a convincing manner.



Research projects so far have not been deliberately planned to this end, and in propagating the concrete results of research, Indian official organization has been notoriously weak.

Even more might be expected from the improvement in the organization of agriculture than from technical advance, especially if the improved organization of common resources, as that of water, forest, grazing land, and so forth, is taken into account. Everywhere the Indian cultivator is faced with problems of soil conservation, moisture conservation, drainage regulation, or increase of irrigation facilities, the better use of grasslands, the linking up of forest resources with the fodder and fuel requirements of the region, and others. In all these, as well as in the individual operations of credit and marketing, the lone, unaided cultivator is helpless.

These questions of the proper conservation and utilization of resources have both an organizational and a technical side. The importance of water supply, natural and artificial, far outweighs all other factors in Indian agriculture. And in this connection also, while the larger projects have received all attention, the small-scale local problems, which are no less important, have been mostly neglected. The general consideration in regard to Indian soils, apart from the problem of erosion, is one of their exhaustion. The soils of India have been cultivated from time immemorial, and little has been done to conserve the original qualities of the land. The exhaustion of soils has in many areas reached a stage where further deterioration borders on the impossible. This prominently emphasizes the need for a proper utilization of manure resources for a sound agricultural economy. Attention may be drawn in this regard to the efficient system of using all waste materials, as manure, developed and practised for centuries by the Chinese.

Closely allied with this is the problem of cattle resources. More and inefficient cattle is the vicious circle that envelops the Indian farmer. In view of the increase in the area under cash crops and the very limited scope for the further extension of pasture land in India, the supply of fodder appears highly inelastic. Fewer and efficient cattle, therefore, seems to be the obvious goal. This applies as well to draft as to milch cattle.

### *The Political Aspect*

The present state of affairs is the inevitable consequence of foreign rule. A highly centralized bureaucracy has been the necessary instrument of the maintenance of British rule in India. This bureaucracy has been responsible both for shaping policies and for administering

them. The aims of British policy could not, therefore, take into account the internal social needs of the various regions. The British had also not the means to carry out a detailed programme of local rehabilitation or reconstruction. Their best work lay, therefore, in such directions as the construction of large canal systems or the devising of a famine relief policy. The main need of Indian rural economy today is to increase as far as possible the resources of the small peasant by organizing local and regional communal effort and by introducing improvements suited to local needs. It is only a democratic form of government and a democratically conceived administrative machinery that can adequately supply this need. It is hoped that the time may not be far distant when the Indian peasant, in possession of a modicum of political power, may use it to some purpose in forcing a realization of this on the powers that be.

## GRAMDAN — IMPLICATIONS AND POSSIBILITIES\*

IN the presidential address to the Allahabad Agricultural Economics Conference I made an examination of Bhoodan from the point of view of land management organisation in India. As a result of that examination I concluded that as considered against a static background Bhoodan had justification. If there was no prospect of a change either in the structure of economic society or the level of its productivity, social justice supported the plea of the Bhoodan movement. If the population was to remain prominently agricultural and poor there was every reason for sharing our poverty more equitably. However, if we could look forward to progressive and fairly rapid economic development, Bhoodan ideology and such success as the movement achieved in practical terms may prove a handicap in the proper solution of the land management and production problems at a later stage. Since I made this examination, the Bhoodan movement has undergone considerable development. The concept of Gramdan has emerged and emphasis has progressively shifted from Bhoodan to Gramdan. I heartily welcome this development; because, while I still hold that in a dynamic situation Bhoodan would prove inappropriate, I can visualise Gramdan being a powerful instrument of initiating the rapid socio-economic changes, in bringing about which there appears general agreement in the country.

The first point to be made in this regard is that Gramdan cannot be and should not be looked upon as a mere extension of Bhoodan. The slogan of both (सर्वे भूमि गोपालकी) may be the same but whereas Bhoodan appeals to you in the name of the landless to part with a little bit as an act of charity, Gramdan requires you to put your all in the pool and abide by the common decision. Further, the contention that in Bhoodan "dan" is to be interpreted not as charity but as equal distribution (दानं सविभागं) was never proved in practice to be true and was difficult to accept even conceptually. With Gramdan, there is no difficulty in accepting this definition of the term "dan". However, it requires to be examined whether there are any difficulties in the way of its possible operation, in practice, in that direction.

\* *The Indian Journal of Agricultural Economics*, Vol. XII, October-December 1957, pp. 1-10.

It is often said that the Indian countryside requires an economic and social revolution. It is necessary to be specific about the nature of this revolution. Economic power in the countryside is today exercised chiefly by two elements. The first of these is represented by the trader-money-lender class who chiefly profit from all opportunities of gain connected with the finance of agricultural production and with trading in the countryside. This element is connected chiefly with the urban trading and financial communities and acts as their representative in the countryside. The other element is that of the substantial landlords and farmers, say, the top 10 per cent. These are ordinarily holders of land as also cultivators of it on a comparatively large scale and they usually wield considerable political and social power. In some instances the two elements would have much in common and may act together closely. In many areas, however, they would be separate.

The problems of change involved in the two cases are different and different types of programmes have to be devised for them. In relation to the operations of the trader-money-lending interest, the programme now adopted appears to be that of strengthening co-operative efforts in the spheres of both agricultural finance and marketing with extended emphasis on processing activities; the co-operatives are to be helped by direct State activity in storage and warehousing of agricultural produce and, perhaps, also in purchase of agricultural products at a later stage. This programme, if successful, would still not affect the position of the top agriculturists. They would be left as strong as before; actually their position may become stronger as a result of the diminution of the influence of traders and money-lenders if in the co-operatives which take their place the top cultivator elements are dominant. Such domination on their part may indeed be expected and would ordinarily take place unless special efforts are made to obviate it.

The present position of the top agriculturists depends on their command of extensive land areas and will continue as long as this command lasts. Therefore, their position could be affected only by certain types of land reform proposals.

Both these programmes, that of land reform and of co-operative development, are today largely paper programmes. It is indeed possible that they may be seriously whittled down even before they are launched. It is clear that there are today powerful forces operating at the highest level working for the retention of the trader-money-lender class in rural India. Two recent events may be noted which are of significance in this connection. The first is the keenness of many in authority to ensure the continuance of the operations of the private trader even in the handling of foodgrains. The second is the

attack on the whole programme of strengthening of co-operative primary units by making their sizes economic and by supplying them initially with required financial resources by contributions from the State. The opposition takes the form of raising a cry of voluntarism. ✓ It safely ignores or deliberately shuts its eyes to the universal lesson, specially emphasised by experience in India, that the unaided activities of the poor and the weak can make no advance against the heavily entrenched position of the trader-money-lender classes. The plea for small uneconomic single village units and for denying financial aid to primaries of poor peasants, in a country where all the largest industrial units have been established through and maintained by sacrifices imposed on the consumers and have been given all kinds of State aid, including concessional finance, appears no more than an unsuccessful attempt at concealing the real intentions of those who want to maintain the status quo. The great difficulty of doing anything effective in the matter of land reform shows the strength of the other element which is powerful in the countryside. The basic sterility of the community projects administration stems from its inability and unwillingness to do anything which will affect the position and interests of these two entrenched classes. The approach of the C. P. A. is illustrated by a recent survey which revealed that the C. P. A. was unwilling to encourage the scheduled castes to assert their constitutional guarantee of legal and civic rights.

The position may be summarised as follows. There is general agreement that economic, political and social progress must rapidly take place in the countryside. At present there is, in fact, very unequal distribution of rural resources and the benefits of the better terms of trade for agriculture have most largely accrued to the financing, trader-money-lender classes and next, in some measure, to big cultivators. A change in this situation and a rapid movement forward in production could take place only if there is a more even distribution of productive resources, greater economic strength on the part of the smaller units leading to ability to withstand pressures from either the top cultivators' strata or the money-lender-trader classes and a concentration of the finance, trading and processing of agricultural production in the hands of the cultivating community itself. In order to achieve these ends there are planned programmes of land reform and of co-operative development and there is a special agency, the Community Projects Administration charged with the responsibility of promoting technical improvement and welfare.

Barring the abolition of Zamindari, which in itself does not complete land reform but merely brings the problem in the older Zamindari areas conceptually to the same level as in the Ryotwari areas, no

great success has yet been achieved in the programme of land reform. In many States comprehensive legislation on well established principles is itself lacking. Where legislation is satisfactory the implementation of the tenancy provisions is either weak or the local land-owning classes have successfully circumvented it. The programme of redistribution of land and the strengthening of the uneconomic units by some sort of pooling of land and other resources lags in every way, far behind even the tenancy aspect of land reform. Programmes of co-operative development in relation to finance, marketing and processing have made some headway in States where already non-official co-operation was strong and had some idea of the nature of the problem faced by it. In other States the progress is far from satisfactory and there is likelihood of the programme in this regard meeting heavy weather in the near future. The Community Projects Administration is unable to take any action which vitally affects the interests of existing powerful groups of rural society. There is no prospect, therefore, of any immediate large scale socio-economic change in the countryside and this is so simply because there is no desire for any such change among those who hold economic and political power. It is only when pressures generate from below and discontent with existing conditions comes to surface that the formally accepted programmes could become alive.

I shall now examine, against this background, whether Gramdan can be an instrument of directly, by itself, bringing about the social revolution or of generating the pressures necessary to bring it about. It would be appropriate to give replies to these questions by examining the possible effects of Gramdan on each of the aspects of the present situation indicated above. In the first instance, then, how could Gramdan affect the position of the money-lender-trader classes vis-a-vis village society? The act of Gramdan, by itself, in no way, immediately or directly affects the position of the trader-money-lender class. Only to the extent that the operations of the money-lenders had been based on mortgages of land either with a view to its ultimate acquisition or merely for greater security of credit, Gramdan involving the transfer of individual rights in land to the village community as a whole would affect them. However, the findings of the Rural Credit Survey indicate that in recent years the extent of mortgage credit in the countryside has decreased considerably. To the extent further, that though there was no explicit charge on land or a mortgaging of it, a money-lender operated in the light of the possibility of selling out the land by the cultivator and was persuaded thereby to give credit liberally, Gramdan would lead to its contraction. However, the total effect of this consideration is not likely to be large. As a result of tenancy and

alienation legislation the free market in land has almost disappeared in most States and the land value basis of credit has been considerably narrowed.

The trader and his operations are not directly affected at all by Gramdan. Gramdan, by itself, cannot lead to community action in relation to credit, marketing and processing. Gramdan may create an atmosphere favourable to community efforts, but they do not automatically follow on Gramdan and would require somebody showing initiative and taking positive action. In this context, a difficulty is likely to arise which will have to be faced by all Gramdan workers. Barring exceptional cases, the combined resources of a Gramdan community in money or management ability etc., are not likely to be large enough for them, unaided, to dispense with the services of money-lender traders. Therefore, those who preach Gramdan and bring it about must consider it as, inevitably and logically, their own responsibility to provide the needed additional resources for at least a period from outside. This means that the co-operative development and technical improvement programmes which are being advocated elsewhere must be operated in the Gramdan villages and in this task the initiative and even the full responsibility, in the early stage, must be taken by the Gramdan workers. Reports from some areas where Gramdans are supposed to have taken place but where little has been done for loosening the hold of traders and money-lenders and the disruptive effects of such a state of affairs indicate that this point is not irrelevant to the developing situation. These observations mean that the act of Gramdan by itself will not bring about the desired change in relation to the position of money-lender-traders and that this problem has to be tackled specifically as part of the re-organization following Gramdan, at least in the initial stage, by the Gramdan workers themselves.

Gramdan should directly affect the position of the other dominant class of the big landlords and cultivators. Without the active co-operation and consent of the more substantial landowners and cultivators in the village, no Gramdan can come about. Therefore, the statement that a Gramdan has been completed should be held equivalent to the statement that the top strata of cultivators and landowners in the village have voluntarily withdrawn from their entrenched position. What are the important results which could flow from this act of voluntary surrender? In this context also it is necessary to distinguish between what will necessarily happen following the propaganda leading to Gramdan and what must take place if Gramdan is to prove a powerful instrument of change.

With the history of Bhoodan behind it the initial redistribution after Gramdan is likely to emphasise the aspect of giving a minimum of area of land to the landless and the smallest holders. It has already been the experience that such redistribution at the initial stage may be largely notional and may not affect materially the position of the large holders and the general pattern of command over resources in the village. That the initial step is not far reaching may not necessarily be a bad thing. As long as the initial step is no more than the first of a series too much importance need not be attached to it. However, this implies that in the Gramdan village a force has been created which will bring about gradually all the desired changes. In the context of land management these changes may be considered under two broad heads. The first of these is consolidation. The technical need for consolidation is universally granted. At the same time, it is general experience that consolidation is a somewhat slow and expensive process. Gramdan can in no way obviate the need for the consolidation effort. Will it make the effort cheaper or more expeditious? The theoretically absolute right in relation to redistribution of land that the Gramdan village community may be supposed to acquire as a result of Gramdan should prove an extremely important asset in the process of consolidation. Both the expenses and the time required should be capable of material reduction because of this in the Gramdan village. But the effort at consolidation will not follow automatically because of Gramdan. The Gramdan community must be aware of the technical, long term need for consolidation and must have a functioning authority which will exercise the power and organize the effort needed for it.

Perhaps even more important than consolidation is how the concept of the ceiling operates and what is done to the uneconomic holdings in the Gramdan villages. In this matter also there is no step or action that is inevitably connected with Gramdan or which logically follows from it. The attitude of Bhoodan workers towards common production and co-operative farming has become more favourable in recent years; but even today the ultimate objectives regarding, for example, the organization for production do not seem to be clearly visualised. The usual questions regarding the proportion of individual and of common or co-operative farming or other effort, the maximum and minimum sizes of individual and co-operative holdings, measures to prevent departure from accepted norms in these matters, will all have to be faced in the Gramdan villages also. The Gramdan villages will have only one advantage in this regard. They need not immediately attempt all that is thought as being ultimately desirable and they need not now finalise details of the ultimate picture. However, the broad outline



must, in any case, be determined immediately and, further, provision must be made to see that the first tentative efforts are followed by continuous progress towards the end objectives.

There is undoubtedly a great deal in the notion that what is accepted willingly and with understanding would give a firm and lasting basis to change. The stages by which a certain pattern is brought about may be few or many or may take long or short time and there may be differences in the stages and the pace at which in the various Gramdan villages change is proceeding. Some variation even in the ultimate pattern could be visualised and it would be one of the merits of this approach that it gives you scope for considerable experimentation; it is also obviously implied in it that there would be close adjustment of the various stages and experiments to local circumstance and need. The circumstances would not merely be economic but also social and psychological and it may be necessary to look to and make adjustments for the latter to the same degree as for the former. When all this is said, it would still remain true that the general direction in which the Gramdan villages proceed will have to be clearly formulated. The idea thus brought out in the context of land management that each Gramdan village is a unit which is committed to a programme of consolidating land and creating units of efficient operation of it (however, interpreted) and that this programme will proceed by stages and will be adopted to the needs of the situation in each village all implies continuous operation of an organization or authority in each Gramdan village. At each stage of further step in consolidation or creation of new efficient units, the Gramdan authority will have to exercise its rights regarding resumption and redistribution of land. A gradual process would be possible only if such rights continued to exist and were actively exercised. This again means that the Gramdan authority could not at any stage resign its powers or create permanent vested rights against itself. If, therefore, at the initial or at any specific stage in the redistribution of land, possibilities of later distribution were closed the elasticity of operation and the possibility of progress in the Gramdan village would also be closed. All this could be summed up perhaps best by saying that a Gramdan village in which resumption and redistribution of land are not continuous active possibilities, would cease in fact to be a Gramdan village.

The formulation arrived at above has far reaching results. For example, it implies that the ordinary laws of tenancy operating in a State would not operate in a Gramdan village. The whole elasticity of the Gramdan would be lost if tenancy laws were held applicable. The act of Gramdan must be held thus to involve not only complete surrender of existing rights in relation to land by all types of present

holders but also the decision not to alienate any of the surrendered rights to any person, family or organization at any time in the future. This suggests that the individual cultivator in a Gramdan village would be, vis-a-vis the Gramdan authority in a position similar to that of a tenant-at-will. Such a status would be agreed to by members of the Gramdan community only if it was guaranteed that in a Gramdan village, none of the usual disabilities to tenants-at-will continue to operate. For example, it would have to be guaranteed by the Gramdan community that each holder who cultivated independently had fully adequate credit and supplies, whatever the status and size of holding and that even though he held no permanent or long term rights in any particular piece of land his economic security was looked after by the community at least as well as if he held a piece of land or property permanently. Existence of a continuously functioning right of resumption and redistribution is thus seen to involve the obligation of looking after permanently the economic interest and security of all constituents of the Gramdan village; and this would apply not only to present constituents but also to their dependents, successors in title, etc. Perhaps even this is too narrow a definition of the responsibility. The fact that one of the first acts of the Gramdan village is usually to vest some land in the landless in the village shows that the responsibility shouldered by the Gramdan community is not confined to those who are holders of land today. The responsibility extends to non-owners as well as to owners, to non-agriculturists as well as to agriculturists. It covers all of them. The Gramdan village, in fact, takes responsibility for the economic security and welfare of all who form members at any one time, of the Gramdan community.

Let us examine this further by reference to some of the usual difficulties experienced in the operation of tenancy laws. One of these relates to alienability of land and the raising of credit. The Gramdan community is essentially the superior holder of land. As no other holder within the Gramdan village would have any transferable rights, he would have no right to create a charge on any piece of land. Therefore, to the extent that resources could be had only through creation of a charge on land resources such credit could be raised only by the community and by no individual or institution within it. Is this to be taken to mean that, for example, intermediate and long term credit would have to be raised by the village community itself and would it logically follow that, in this instance, the village community and the borrowing authority for this purpose would have to be identical? It does not seem absolutely necessary to accept this somewhat inconvenient position. With the current programme of land reform in India the land mortgage basis of long term agricultural credit is more and

more receding into the background. Both the alienability of land and determinancy of the value of land are no longer generally existent. Therefore, land values and long term land credit would not be as inter-connected in the future as in the past. Long term land credit related to specific approved investments and leading to expected improvements in production from which the credit is liquidated, would tend to be divorced from alienability of land in the future. Thus conditions outside the Gramdan villages would not differ materially from those within Gramdan villages. So that not necessarily the Gramdan community itself but any co-operative operated by a body of producers within the village which had an investment programme should, in the particular context, be able to obtain credit without a mortgage on land. Though it may well happen that where the investment is in land or in permanent structures imbedded in it the creditor may require the additional guarantee of the Gramdan authority as the ultimate superior holder of land. Thus in normal operations a Gramdan village may not suffer any handicap. However, the discussion makes clear that the fact of Gramdan does raise important questions regarding not only legal provision but also regarding division of functions, etc., between the Gramdan authority and other associations like co-operatives within or outside the village. It also emphasizes that a large part of the development investment will have to be undertaken on a community or co-operative basis and could not be left to individual operators.

A number of difficulties of the existing tenancy laws arise in connection with enforcement. These difficulties have their origin in the overwhelming influence of the top strata among cultivators, who might also be substantial landowners. Legal provisions regarding levels of rent become ineffective as these landlords are able to enforce payment of the traditional rent in spite of the law. In view of the competition for land among tenants, legal rent becomes ineffective except against absentee landlords or perhaps landlords not belonging to the dominating cultivating communities. Similarly, security of tenure guaranteed by law loses meaning when the landlords are in a position to obtain voluntary surrenders of land from their tenants.

In a Gramdan village such problems should not arise, initially because of the voluntary giving up of their superior position by the big cultivators and later, because of the continuous operation of a phased programme of equitable distribution and efficient productive organisation in the Gramdan village. Obviously, if the initial redistribution is nominal and no phased programmes operate, abuses flowing out of the dominant position of a small number of big cultivators will not cease merely because at one time an act of Gramdan took place.

There are other problems of tenancy arrangements which may be said to be connected with the life-cycle. These arise out of the variety of circumstances which tend to create a break, for a long or short period, in the cultivating operations of a family. There is the common case of the death, etc., of the head of the family leaving only males who are minors and who are unable to carry on cultivation. Or, consider the case of a family from which one or more adults have migrated for employment outside the village while one carried on the cultivating business and due to death or incapacity of the non-migrant adult the village business is interrupted while the migrant adults may not be in a position to return to the village immediately, though they intend to return after a period. In all such cases, for long or short periods, the family might desire to vest its cultivating rights temporarily in some other person. It may, as in the case of a minority, also find it necessary to have some income from the property during this period. A problem of subletting arises in these cases. On the other hand, when the minor is able to look after the farm or the migrants return to the village for permanent settlement there arises the problem of resumption of cultivation. Subletting and resumption have, therefore, been processes for which some provision has always had to be made in all tenancy laws. At the same time it has been found that it is not easy to make a provision without serious possibilities of creating a class of pure rent receivers on the one hand and complete tenants-at-will on the other. Gramdan may be able to deal with this problem successfully. It will do this on the two-fold assumption made above that (1) in a Gramdan village resumption and redistribution are always possible and to some extent, frequently take place; and (2) that the Gramdan authority which is the superior holder of all lands and natural resources also shoulders the responsibility of adequately providing for the economic need of all members of the village community for the time being. On this basis the Gramdan authority should have no difficulty in meeting the problems of subletting and resumption. For, if for whatever reason a family in the village is no longer able to continue cultivating operations the lands in question will be available to the Gramdan authority for being allotted to other persons or uses. At the same time when, for whatever reason, the earning capacity of a family at work is impaired it would be the responsibility of the Gramdan authority to provide appropriate work and/or relief to that family. Similarly, when in any family minors grow up and become capable of doing work or some temporary migrants return, provision of land or other type of work would have to be made for them by the Gramdan authority. Thus the dual responsibility of keeping all resources under active productive operation all the time and of finding work and suste-

nance for all members of the community, which the Gramdan authority shouldered could be carried out only with a full control over productive resources of the village as a whole.

Continuous operation of powers of resumption and redistribution emerges as the key factor in all contexts. Resumption or redistribution may take place both at long intervals in a large measure and continuously in a small measure. In relation to changes in circumstances of individual families there would be continuous but marginal adjustments. On the other hand, in relation to important transformations made necessary by changes in ideas or through reaching limits of important phases of a long term programme or by reason of the need to introduce new techniques or undertake new common ventures, the operation may have to cover simultaneously almost all the village resources and may bring about very substantial changes. With this view of the functioning of the Gramdan authority, the tenancy difficulties discussed above will get dealt with as parts of the continuous adjustment process.

It will be realised that this formulation of the responsibilities and functions of the Gramdan authority implies interest on its part not only in agriculture but also in economic activity other than agricultural. As manager of land and of the cultivator's economy in general the Gramdan authority will have to concern itself with the fodder, fuel and forest resources connected with the village and with their management. As the authority proceeds to take its responsibility of providing work more and more seriously, it will find it necessary to enter the field, for example, of organisation of village industries, as this will be the area in which employment for most of the labour outside agriculture in the village will have to be found. This will be in addition to its activities relating to improving techniques and in every way improving the utilisation of land and natural resources. All this will link up not only with the general problem of organisation and development of rural industry but also of increased capital formation in connection with agriculture and such matters as development of communications, the provision of housing, the provision of overhead facilities such as water or power supply. The Gramdan authority will thus come to have an overall interest in all economic activities in the village. It may be that in many of these contexts the Gramdan authority will not operate directly but through common or co-operative organisations set up for specific purposes. In fact, experience may reveal that it may be best for the Gramdan authority to confine itself to the role of the superior holder and planner and co-ordinator, leaving all individual activities including agricultural production,

marketing, processing, etc., to separate organisations specifically formed.

Consideration of various aspects above indicate, that Gramdan may, indeed prove an agency of resolving satisfactorily a number of difficult problems that confront us in bringing about change in rural society. It may break the power of the top strata of cultivators; it may eliminate the money-lender-traders from agricultural production and marketing; it may satisfactorily deal with many problems of land arrangements and management arising out of changes in fortunes of individual families, etc.; it may organise total resources and economic activity successfully; it may bring about greater equality and generate enthusiasm from which all would benefit. It is at the same time equally clear that for attaining all this it must recognise spheres of action and responsibilities which are not generally recognised as pertaining to it and take on itself a wider and more positive role than has been hitherto envisaged.

However, this wider concept raises urgently and in an acute form the problem of defining the relation of the Gramdan village to the rest of the society in general and to government of the State in particular. It has been made clear above that the Gramdan village will have to be placed outside the scope of most of tenancy and land reform legislation of the State. In many other ways, such as in dealing with the Revenue, Police, Forest, Agricultural, Industries or Co-operative Departments the special position of the Gramdan village may have to be recognised in law and in administrative practice by the authorities of the State. But this can be done only if Gramdan represents a worthwhile social experiment. Therefore, while recognising in many ways the privileged position of the Gramdan village the State will, in fairness to itself and to the society in general, have to insist that the experiment is conducted properly and moves continuously in the right direction. For this purpose there will have to be a clear definition of the ultimate objectives of the experiment, the direction in which it keeps on moving, the pace at which it moves and the persons or organisations responsible for ensuring a minimum performance. In this connection reference may be made to a notion much talked of, the notion of Gram Sankalpa. It is often said that Gramdan operates with a Sankalpa and the Gram Sankalpa representing the views of the villagers and their autonomous decisions should be unguided and unfettered. It is also often said that this should be connected with a minimum of organisation. Whatever the spiritual or ethical values of these ideas, it has to be clearly recognised that in terms of socio-economic policy such claims on account of Gram Sankalpa cannot be recognised. It was indicated earlier how Gramdan may prove abortive at early stage, so

that nothing happens after an initial perfunctory redistribution of land. To treat a village in this position as a Gramdan village outside the operation of tenancy and other laws will be a travesty of socio-economic policy. Therefore, it is far from sufficient for being so treated that at one time there has been Gramdan; if subsequently there has been rigidification of all arrangements and no further movement, the village must come within operations of the ordinary State laws and State policy. To be treated as a Gramdan village the village must be seen to be shouldering responsibilities and pursuing objectives that are or should be held to be at the basis of the social philosophy and economics of Gramdan. No doubt, in judging the performance of the Gramdan villages a large margin of tolerance will have to be allowed because of the immense variety in circumstances in the country. So that the phases of the programmes in some respects, even its pattern to a limited extent and especially the time taken over its fulfilment should not be rigidly laid down. But there must be some overall directives and some overall responsibility for continuous progress. Who will shoulder this responsibility ! Is it to vest merely in each Gramdan village separately or at least where there are large numbers of them in an area, will a common organisation of all undertake the responsibility ? Also, in no case can the State divest itself of its overall responsibility which, in this case will mean the right and duty to assess progress periodically, to issue directives and, finally, if necessary, even to suspend, supersede or extradite-extradition meaning in this context removal from the roster of Gramdan villages.

Gramdan, then is an unprecedented movement with many and complex implications and very great potentialities. Wherever the Gramdan experiment is conducted in a substantial measure very special legal and administrative provisions would be required to give it a fair trial; these could not be made perfect within a short time, and a large amount of sympathetic experimentation could alone prove what is required. But from the outset it is also of the utmost importance that both Government and those responsible for the Gramdan movement realise fully the total implications of the effort and the experiment and are ready to carry out the related responsibilities.

Finally, a word may be said about the possible extension of the idea and the movement. Once Gramdan becomes established as an operative institution, it may in favourable circumstances grow and spread without any special propaganda or outside effort. It may then become a matter of choice for the people whether they remain in the common pattern or seek development in the Gramdan pattern with the special aids and privileges that it obtains, on the one hand and the special effort and responsibilities that they have to undertake, on the

other. And it may become necessary to provide for obtaining certain requisite majorities as in other types of legislation for being counted in the Gramdan system. This is perhaps looking far ahead, but it is only if the Gramdan movement succeeds in this manner in establishing a possible pattern for which the people can deliberately opt that it could influence policy and socio-economic development in the country in a really effective manner.



# THE SHIFTING FORTUNES OF AGRICULTURE\*

## The Experience of Less Fully Developed Countries

### I

THE term "less developed areas" is frequently used in the United Nations World Economic Survey, 1955. In this publication, the term appears to cover Latin America, Africa excluding South Africa, and Asia excluding Japan. The coverage is indicated in the context of private enterprise economies and does not, therefore, take note of the centrally planned economies. In any general review, China will have to be included among the less developed countries. Detailed information relating to China is, however, scanty and little attention has been given to that country or any of the other centrally planned economies in the following.

Statistical and other data are not readily available for the less developed regions as such. They are usually available for entire regions such as Latin America, Africa and Asia or the Middle East and ECAFE regions in Asia. South Africa and Japan have properly to be excluded from these regions. However, their inclusion does not greatly affect the broad statistical picture and the data for Africa and for the ECAFE region are presented here without exclusion of the data for South Africa and Japan from them.

The underdeveloped areas of the world comprise countries with an immense variety of physical and human conditions; and it is not possible to make generalisations regarding shifts in agriculture in them. Also, detailed economic information relating to the agriculturists in these regions which will enable presentation of a connected picture of their changing fortunes is not available. Therefore the paper attempts to frame this picture by examining (i) the regional data for production, trade, prices and terms of trade, (ii) the content and operation of national policies and (iii) the data regarding relative incomes of agriculturists for a number of individual countries.

Asia (excluding the territory included in the USSR), Africa and Latin America together contain roughly about 70 per cent of the

\* Text of the paper submitted to the Tenth International Conference of Agricultural Economists, held at Mysore, August 1958. Published in *The Economic Weekly*, Vol. X, No. 36, September 6, 1958, pp. 1165-1168 and Vol. X, No. 37, September 13, 1958, pp. 1187-1191.

population of the world. In recent years the growth of population in these regions has been rapid, above the average of the rate of growth in the world as a whole. For the period 1951-1955 the world rate of population growth was put at 1.6; the corresponding rate for Africa was 2.0, for Latin America 2.5 to 2.6 and barring one region, viz., South Central Asia, the rate was higher than the world average for all other regions of Asia. (U. N. Demographic Year Book 1956, Table A. p. 2). More than three fifths of the people in the world live on farms. In all the more developed countries, the porportion of the population supported by agriculture is less than 50; it is more than 60 in Asia and Africa and more than 50 in Latin America. As a result, more than 80 per cent of the world population supported by agriculture lives in these regions. Viewed as a human problem, the problem of agriculture is essentially a problem of the less developed countries.

### *Regional Variations*

Agricultural production in the world has been increasing side by side with the growth of population. Increase in agricultural production in the post-war period had to make good the ground lost during years of war and also to keep pace with, and outpace, if possible, the growth of population. It was only in 1954-55 that the world level of per caput agricultural production attained the average level of the years 1934-38. Among the less developed countries, productive activity in many countries in Asia, in particular, suffered greatly during the war, and in some of these, conditions favourable for increased production were not established for some years after the end of the war. As a result in the ECAFE region, as a whole, per caput agricultural production in 1956 was still a little lower than that in 1934-38. Latin America has shown a very high rate of growth of regional population in the post-war period and in spite of continued expansion in agricultural production its per caput level in this region remains below that of 1934-38. In all the regions, the rate of growth of industrial production has been relatively much larger than that of agricultural production.

Rates of growth of total agricultural production and, in particular, the relative rates for food and non-food crops varied greatly from region to region in the post-war period. Food crops have always held a dominant position in agricultural production in all the less developed areas. The rates of growth of food crops have, therefore, moved parallel to those of total agricultural production. In the ECAFE region where the net advance in both food and non-food crops had not been large, the rate of growth was slightly larger in non-food crops than in food crops; in Latin America, on the other hand, the increase

in production was mainly reflected in food crops, the growth in non-food crop production being comparatively small. In these two regions per caput food production has not yet reached the pre-war average. In the Near East, the growth in the food crops was larger than in non-food, though the disparity in the rate of growth of food and non-food crops in this region was not as marked as in Latin America. In Africa, there was considerable increase in the production of food crops, roughly of the same order as in the Near East and Latin America. However, the rate of this increase was much smaller than in non-food crops, which made remarkably large strides forward in this region during the post-war period.

### *Relative Prices*

International trade in agricultural products declined considerably during the years of war. War conditions also brought about changes in the origin and destination of exports and imports. The most remarkable differences in the situation in 1946 as compared with that in the period 1934-38 were (i) the very large increase in the exports of food and feeding stuffs from North America and (ii) the great decline in total agricultural exports together with almost complete cessation of food exports from the ECAFE region. The decline in the volume of the international trade in agricultural products during the war was made good by 1954 and there has been some increase of this trade since that year. The growth still lags substantially behind the growth of trade in non-agricultural product in the post-war period.

The most important shift that took place in recent years in the fortunes of the agriculturist was the recovery of relative prices of agricultural products from the very low level that they had reached in the thirties. All evidence indicates that as a result of this improvement in relative prices farming communities were substantially better off in the years immediately after the war than in the specially depressed years before the war.

Changes in the relative position of the agriculturist may be calculated in a number of ways. One way is to relate movements of farm prices of agricultural products to those of general wholesale prices. Such a comparison points to a general improvement in the post-war period. However, the peak period varies in individual countries from years immediately after the war to the period of the Korean boom. Everywhere the farmer lost ground after the attainment of the peak and in 1954 and subsequent years, his relative position in some countries became as unfavourable as before the war. Data are available for comparing the prices received by farmers with those paid by them

in a number of highly developed countries; examination of these reveals the same trends as those revealed by the relation of farm agricultural prices to wholesale prices.

Relations between price series cannot reflect differences brought about by changes in output or unit costs. Direct data relating to farmers' incomes, where available, are, therefore, the best indicators of the fortunes of agriculturists. It would appear from such data as are available in a few highly developed countries that, in these countries, after 1954, growth of output counteracted to some extent the effects of the continued deterioration in the ratio of prices received by the farmer.

Statistical data for most measurements of relative income and consumption levels are ordinarily not available in the less developed countries. However, such direct or indirect evidence as is available from them points to an improvement in the condition of farmers in years immediately after the war. For example, the All India Rural Credit Survey found two indicators of the relative improvement of the position of cultivators during the late forties. The first was the low level of indebtedness in all surveyed villages in 1951-52 and the comparatively small proportion of debt of many years' standing; the second was the significant volume of net purchases of land made by cultivators from non-cultivators during the year of the survey, i.e., 1951-52.

### *Terms of Trade*

In the absence of more direct data, one of the criteria that may be used for judging of the relative economic condition of agriculturists of certain regions or of growers of certain products, is the terms of trade for agricultural products in international trade. This criterion is specially important for those countries in which the fortunes of the agriculturists depend to a large extent on the production and export of a small number of agricultural products. It is agreed that the purchasing power of agricultural products on international markets declined steadily, and was, during the inter-war period, on a lower average level than at any time during the previous half century. The gain in the post-war period was substantial but does not appear to have been maintained or stabilised. What is more important from our point of view is that the changing gains and losses from period to period are spread very unevenly over individual agricultural commodities and may thus bring about varying changes in the fortunes of the agriculturists of different countries.

Some commodities bore the brunt of the fall in prices during the depression of the thirties; movements in the post-war period have also been uneven. A recent examination of the prospects of Latin American trade divides the main agricultural exports from Latin America into three groups. (FAO : Monthly Bulletin, March 1958). The first group consists of coffee, cocoa, bananas and wool. These are products for which there is an expanding world demand and in which prices, though not stable, may be expected to be maintained at a favourable level. The second group consists of sugar, wheat, tobacco and cotton. International trade in these is not expanding and Latin America's increased share in the trade is attributed to special factors such as the non-recovery of older exporters. The current terms of trade for the products of this group are much less favourable than those for the first and the prospects are not very hopeful. Maize and beef form a third group of commodities. World trade in coarse grains appears to be contracting rather than expanding and the prospects of the trade in meat and other livestock products are held to be uncertain, due chiefly to the importance of domestic supply in most importing countries.

Reference may also be made to a statistical examination of changes in the terms of trade and their effects on national income and trade balance in ECAFE countries whose results are relevant in this context. (ECAFE: Economic Bulletin for Asia and the Far East, May, 1957). The chief of these are that during the period 1949 to 1956, countries exporting mainly primary products enjoyed the larger gains or sustained the larger losses through changes in terms of trade; the chief sources of gains were rubber and certain mineral products on the export side and textiles on the import side. The trade gains for the region rose to a peak in 1951, fell to one-fourth in 1953 and again more than doubled in 1955. Prices of primary exports and gains from trade fluctuated violently; the fluctuations were primarily created by changes in the demand for exported products and there was no control in the hands of producer-exporters. These evaluations of future and past situations will make clear why in the agricultural programmes of the less developed countries emphasis is placed, wherever possible, on diversification of agricultural production or on selective expansion.

It is clear that in spite of diversity of conditions certain important features of the situation are common to a large number of the less developed countries. These are a somewhat slow expansion of agricultural production and of trade in agricultural products, a lowered level of exportable surplus of foodgrains and greater dependence on imports of foodgrains, some correction of the price disadvantage of

the thirties accompanied by great unevenness in the distribution of the gains and continued instability in relation to the volume and value of world trade in agricultural products.

## II

Acceptance of the need for an active economic national policy on parts of governments of states is an important phenomenon in the post-war world situation. Governments of most less developed countries have become concerned with economic development in the post-war period and are adopting active measures towards bringing it about. In view of the existent dominance of agriculture in these economies programmes of development naturally emphasise growth of industry and production of energy. However, agriculture cannot escape attention in these plans and policies. The rapid growth of population in these countries renders increased supplies of food urgent. In a number of these countries the first steps in improvement of economic condition of the mass of the people are apt to be accompanied by an increase in the per caput demand for supplies of food. And recent experience indicates the desirability of attainment of relative self-sufficiency in supplies of food. Most of the underdeveloped countries have thus to be concerned about increased food production internally. Secondly, and even more importantly, the less developed countries belong mostly to the class of "primary exporting countries" and depend for their foreign exchange resources chiefly on exports of agricultural produce. As the industrial development plans of all these countries depend essentially for their fruition on imports of capital goods, the ability to earn exchange through exports of agricultural produce is vital for these countries and this must lead them to take steps for increasing and diversifying agricultural production. In the long term, successful and sustained industrial development will itself need a wider agricultural base. The fullest attention has thus to be paid to agriculture in the development plans of the less developed countries. The importance to be attached to agricultural development may be reduced to some extent only in those countries which possess an important alternative exchange earning asset such as oil.

Increasing the total agricultural base, diversifying agricultural production and making the farmer's activities more profitable have been agreed objectives in most national programmes. The agricultural base might be increased by extension of area or by increasing intensity of exploitation. There are still considerable unexploited areas in a number of the less developed countries. This is so in many countries in Latin America and Africa, and in countries like Malaya and Phil-

pinus in Asia. In countries where such extension of area is possible, provision of food for the growing population does not present great difficulties. In all the older, more settled areas, the problem is made intractable because the pressure of population keeps the individual unit of cultivation small and unless non-agricultural economic activity grows at a specially rapid pace further growth of population is apt to worsen the situation.

### *Stagnation In Yields*

In recent years, among the less developed regions, it is only in Latin America that the percentage of the total active population engaged in agriculture has declined significantly, in this case from 59 in 1940 to 49 in 1955. In this region also, the gross product per worker in agriculture rose by 18 per cent between 1945-47 and 1953-55. (U. N. Economic Survey of Latin America, 1956, p. 106). These figures represent considerable progress within a large region. Similar data are not available for all regions. As a contrast to the above, however, some data for the ECAFE region may be presented. The level of production per head of the agricultural population is very low in this region. But the really serious aspect of the situation is the stagnation in agricultural yields over the decades indicated by all available data. The proportion of those dependent on agriculture in those countries is among the highest in the world and a trend towards continuous industrialisation cannot be started and maintained if, as happens in some of these countries, the labour of one man fully at work on a farm will barely suffice to feed two persons. (U. N.: Economic Bulletin for Asia and the Far East, May, 1956. Article on Population and Food Supplies.)

In the older countries extension of area usually involves costly schemes of irrigation, reclamation, etc. Increase in per unit productivity may not require large outlays but can be brought about only through detailed and well-organised schemes of research, education and extension. One of the more rapid ways of increasing productivity of labour, that through mechanisation, is also not practicable in countries with small holdings and growing numbers supported by agriculture. Apart from the direct attempts at increasing area and productivity, programmes of agricultural development in the less developed areas have other highly important aspects. These are the reform of the rural socio-economic structure and the reorganisation of individual holdings included under the omnibus term "land reform", the programmes of making rural credit more plentiful and conveying it through institutional channels and making the marketing structure

more efficient and beneficent and programmes of subsidies and of control, support and stabilisation of prices.

Programmes of research and education are, in the long run, of fundamental importance. In the context of the actual fortunes of the agriculturist they assume importance when they come to affect his costs or his income. This is also true of any programme of rationalising layout or other rearrangements of the holding. There is, however, one aspect of land reform which may immediately affect the fortunes of agriculturists. This is where, through the abolition of a superior holder or the reduction of levels of legal rent, etc., the outgoings of the agriculturists are reduced. It appears that the largest changes in the fortunes of agriculturists in this manner have been brought about in the centrally planned economies. China is the most important recent example. However, to a lesser extent the abolition of intermediaries and reductions of rent have taken place in countries like Burma, India, Pakistan, Phillipines, Egypt, Turkey, Guatemala, Bolivia and Puerto Rico. The difficulty of assessing the actual change brought about by these programmes lies in judging of the effectiveness of actual implementation of legislation. Careful surveys have revealed large failures in this regard in particular areas.

Programmes relating to credit and marketing could improve, within a short time, the economic position of the agriculturist. They have the aspects of reduction of costs as of interest, commission, etc., borne currently by the agriculturists and of increasing receipts through greater and more effective outlay made possible by more ample and timely credit or through a better price obtained because of more orderly marketing. The results of credit programmes are comparatively readily recorded. These programmes have been elaborated in only a small number of the less developed countries and in 1955 the F A O judgement regarding them was no more than that "they have slightly augmented the flow of institutional credit to agriculture." (F A O: The State of Food and Agriculture, 1955, p. 40.) The latest data indicate no great advance. Among the underdeveloped countries the amounts of institutional agricultural credit advanced in recent years appear significant chiefly in Turkey and Egypt in the Near East, Puerto Rico, Columbia and Argentina in Latin America and the Phillipines, Ceylon, India and Indonesia in the ECAFE region. (F A O: The State of Food and Agriculture, 1957, Annex Table 16.)

#### *Price Support And Stabilisation*

The most considerable effect on the fortunes of the agriculturist is likely to be produced by measures of direct subsidies or by price sup-



port and stabilisation measures. Subsidies may be granted as part of a long term development programme for purposes such as the improvement of land or of irrigation source. In terms of current operations they are used chiefly for encouraging adoption of improved products or methods such as through subsidising prices of fertilisers, improved planting material, or tractor ploughing. Though useful in the implementation of certain plans, these subsidies do not represent amounts significant in the context of the total operations of a farmer.

Price policy could affect materially the agriculturist's entire economic situation. The simplest objective of such policies could be the elimination of seasonal fluctuations. For example, reserve stocks of grain could serve not only as insurance against crop failure but could bring down very substantially the annual seasonal variation in prices.\* Usually, however, the objective has a longer period in view and aims at obtaining a fair average price, over the years, for the produce. Where the commodity whose price is controlled is also an important export commodity the operation may amount to an insulation of the domestic market, with internal prices being in some years above and in others below the international price level. Price stabilisation or support policies are fairly wide-spread in the less developed countries. Generally, the prices of only a small number of agricultural products, particularly those entering into international trade are thus controlled.

The governments of all the major Latin American countries like Argentina, Chile, Uruguay, Brazil, and Columbia control prices. In tropical Africa, the outstanding feature is the operation of the Marketing Boards. For many years these Boards kept the domestic price of cocoa, for example, at a lower level than the international price, but also in years of depressed prices after 1954 were able to maintain them in some cases at levels higher than the international. Among the Middle East countries Egypt and Turkey have adopted price support policies. The Egyptian Government controlled both acreages and prices of wheat and cotton and used these for stabilising both farmer's incomes and export earnings. In Turkey, government provides price support for a much larger number of agricultural commodities than in Egypt. Government sets prices at which it is prepared to buy any quantity of these agricultural products—particularly grains. This together with government organisation for storing and issuing grains has brought about a great increase in the production of grains in Turkey since 1950. In the underdeveloped countries of the ECAFE

\* For recent experience in South Korea supporting this view, see *Economic Development and Planning in Asia and the Far East*: Economic Bulletin for Asia and Far East, November 1957, p. 6.

region, many of which are rice economies, price stabilisation or support policies for rice had been followed notably in Phillipines, Ceylon Thailand and Burma. In Burma, in particular, the elaborate price and marketing policy has been directed not only towards stabilising farmers' incomes but also towards obtaining resources for development of the economy. Where state marketing monopolies have operated long enough to build up their own reserves the stabilization operations have been fairly successful and have been maintained even in the face of falling international price.

The operations of these price policies must be considered as an extremely important new factor in the economy of the agriculturists. In the underdeveloped countries these policies cannot increase the share of the agriculturist in the total national product as the agriculturist is here the majority not the minority group. But, through any incentive effects that they have, they might increase total production and might increase the average real level of incomes through elimination of uncertainty and fluctuations. However, in view of the large variety of types of support policies and the variations in their administrative efficiency it is not possible to make any general statement as to their effects.

### *Commodity Agreements*

It has been generally recognised that action by individual countries could not, by itself, prove adequate for stabilising the level of agricultural price, and efforts at international action towards this end have been marked since the depression of the thirties. The considerable increase of government to government transactions during years of war and after, and fears of a depression in the immediate post-war period led to attempts at International Commodity Agreements on a much wider scale than before. The chief new feature of these was the attempt to associate both producers and consumers in one agreement. International Organisations like the F A O have actively backed the formation of International Commodity Agreements. It remains true, however, that the International Wheat Agreement and the International Sugar Agreement are the only two, which today affect agricultural producers in large areas in the less developed countries.

In the absence of international agreements primary exporting countries have attempted to secure their position by entering into bilateral agreements with the chief importing countries of their products. Burma has been one of the most active in seeking these. In regional terms the Latin American countries have tended to look to guaranteed purchases by the USA. The vital importance to economies

of less developed countries of secured export markets was recently emphasized by the agreements regarding sales of cotton by Egypt and Syria to the USSR. The possibility of mutual help among the less developed countries has been indicated by the Rubber-Rice Agreement between Ceylon and China.

### *Evaluation Of State Policy*

It is difficult to judge of effects of state policy, especially in the short run. Policy which brings about better distribution such as that relating to land reform and to co-operative organisation of marketing and credit may prove the starting point, may indeed be a condition precedent, of greater and more diversified production. The immediate betterment of the fortunes of the agriculturists through such policies is not, however, easily discerned. The effects of price support and stabilization policies are even more difficult to assess. For example, Burma has followed through many years a policy for the farmers and of canalising the gains of rice exports into development. India, on the other hand, has had no well-defined policy in this regard and has almost let things drift. Only a detailed, many-sided study of the situation in the two countries could lead to a firm judgement regarding the relative merits and propriety of the two different approaches.

In the post-war period social welfare policies have been responsible for improving the conditions of the people in a number of countries. However, significant programmes of social security, etc., have not been undertaken in most of the less developed countries and in countries like India and Pakistan expenditure even on education for the rural population gets surprisingly low allocations.

## III

### *Agriculture and National Income*

In recent years, use has been made of the national income data for obtaining some idea of the relative condition of agriculturists. Comparison of per caput incomes in Agriculture, Forestry and Fisheries with per caput incomes in all other occupations, taken together, shows that in all the less developed countries the agriculturist is relatively inadequately rewarded. As a rule, in these countries, the per caput income in agriculture, etc., is less than 50 per cent of the per caput income in all other occupations and the percentage may be as low as 30. This percentage depends on a variety of economic considerations and it is not possible to generalise on its basis. In the present context, interest attaches to whether this percentage is increasing or

not. In absolute terms, the income of the agriculturist, ordinarily, increases with an increase in total national income. In view of existing inadequacy of the earnings of agriculturists, it is important that the agriculturist's income should increase faster than the national income. The data for judging of this are scanty but those available indicate large variations in the situation. For example, it appears that in Turkey the per caput income in all other occupations was 30 in 1938, 51 in 1948 and 60 in 1952; in the Phillipines, it varied between 29 per cent and 34 per cent between 1948 and 1952 without showing a definite trend. (FAO : Agriculture in the World Economy, 1955, p. 54). It is obviously dangerous to generalise on the basis of the data for a few years, especially in the case of income in agriculture. It would appear that in the years between 1946 and 1952 the trend in regions like Latin America, the Middle East and Africa was for incomes in agriculture to rise at a rate faster than the national income. The data after 1952 do not present a consistent picture. Fully reliable information regarding the occupational distribution of the population is not available for all countries and where available, it pertains only to particular years. It is necessary, therefore, to confine attention to movements of total income in agriculture instead of attempting to estimate per caput figures for studying trends after 1950.

Examination was made of the data for the six years 1950 to 1955 for some of the larger among the less developed countries in different regions in which the share of agriculture is larger than 25 per cent of the total domestic product. These were Brazil, Burma, Colombia, Egypt, India, Pakistan, Phillipines, Thailand and Turkey. The examination revealed that in Brazil and Phillipines, the share of agriculture (valued at current factors cost) rose continuously from 1950 to 1955 at a rate faster than the total domestic product and that consequently the share of agriculture in the total was larger after 1952 than in 1952 and earlier years. In all the other seven countries, the share of agriculture in the total in the years after 1952 was less than in the years before 1952. These data also indicated very large fluctuations in the value of the product of agriculture from year to year in some countries. In Burma and Colombia, in addition to Brazil and Phillipines, there was a steady movement upwards in the value of both agricultural and total products between 1950 and 1955. In Turkey also, the movement was continuously upward except for a drop in the value of agricultural product in 1954. On the other hand, in Egypt, India, Pakistan and Thailand, there were variations in both directions from year to year and some of these variations were large. In interpreting these data, it is necessary to remember that differences in the pattern of production and in price support, etc. policies

would lead to differences in the situation of the agriculturists from country to country.

### *Vicious Circle*

There are also other limitations of the data of total product of agriculture, in this context. For example, because of stratification within the agricultural community, the benefits and disadvantages might be very unevenly distributed among its members. For example, it has been reported that both in North and Tropical Africa agricultural activity which has proved specially profitable during the last decades has been concentrated in the hands of small groups of European settlers; overall indicators may mislead in relation to the fortunes of the bulk of farmers in such instances. Further, in a large number of underdeveloped economies the share of landlords, money-lenders and traders in the total product of agriculture may be substantial and this might become even larger in proportion in periods of instability. Surveys in such countries have revealed that primary producers fail to profit from temporary favourable changes and that the effects of an occasional very bad year may be felt by them for a number of years afterwards. This makes it necessary to exercise caution in estimating effects of favourable changes, which have not been stabilised or trends which are not persistent.

Recent studies have shown that the main factors responsible for low relative incomes in agriculture are (1) economic instability of agriculture (2) immobility outwards associated with mobility inwards. Economic instability stems from both instability of yields and of agricultural producers' prices. Increase in the inelasticity of the demand for food products, enhanced possibilities of displacement of agricultural raw materials by synthetic etc. products and emergence of surpluses have intensified demand instability in the post-war period. And all national and international attempts to make markets and prices for the agriculturist more stable have achieved little real success. Rapid growth in population continually adds large numbers to the largest existent occupational group, viz., agriculture, and the limited number of openings in other occupations reinforces the other reasons for outward immobility. In the older, the poorer and the more populous of the less developed countries all the factors operate in a cumulative manner. Unless, in some way or another, the vicious circle is broken there is little prospect of the beginning of an upward trend, relative or absolute, in the fortunes of the agriculturist.

## INTEGRATION OF SETTLEMENT POLICIES IN THE ECONOMIC AND SOCIAL DEVELOPMENT OF THE COUNTRIES\*

SETTLEMENT effort may be undertaken for a variety of reasons. It may, for example, arise, because of the recognition of opportunities of development of land and water resources of an area or it may be forced on governments because of an emergency such as the influx of refugees. Whatever their origin the settlements whose problems we are discussing may be taken all to be the result of some effort such as of reclamation, clearance, irrigation, which makes possible a new or more intensive use of natural resources, in particular, of land surface. I confine myself to problems arising out of sizeable schemes which are intended to bring about fresh settlement or re-settlement of comparatively large and compact areas.

There are many problems of all settlement projects which are only marginally connected with social and economic aspects. The whole set, for example, of engineering problems connected with works of irrigation or reclamation, etc. their planning and technical details influence socio-economic development, but are not directly connected with it. Also the stage at which socio-economic problems emerge is the stage when the preliminary works and other programmes have been completed. Socio-economic problems are raised mainly by the attempted use of new resources made available by successful completion of the initial aspects of settlement projects.

The socio-economic problems raised in this manner may be classified roughly as follows :—

1. Problems of the organization of utilization of natural resources especially land, for productive purposes ;
2. problems relating to the settler (including his choice) his family and the new communities to be built up in the region ;
3. problems relating to the activities of the organs and authorities of the state in relation to the settlement, its development and its operation ; and
4. problems relating to the financing of the settlement effort in-

\* Text of a lecture given at the FAO Centre on Principles and Policies of Land Settlement for Asia and The Far East, held at Gal Oya, Ceylon, November-December 1958.

cluding both the original capital cost as well as the cost of development and current maintenance and the financial problems relating to the assistance given to and the charges levied upon the settled families.

The first set of problems are those connected with the organisation of the utilisation of natural resources of the settled area and in particular land. It is obvious that this involves an initial important decision regarding socio-economic policy. It is possible to define one aspect of the decision as that relating to the scale of operation; that is, whether the land resources will be exploited through units organised on a large or on a small or on intermediate scale. The other aspect involves the socio-economic characteristics of the unit organisation established in the area; for example, whether it shall be a state authority, a joint stock company or a family that will operate the productive units in the area. The two types of decisions together may give a variety of combinations. For example, if decision is taken to exploit the area through large scale units, this will still leave open choice between state farms, plantations, voluntary or compulsory collectives or some type of co-operative organisation. Large scale exploitation may be achieved by any of these various forms. It is obvious that decisions in relation to both these aspects will be determined by the prevalent socio-economic conditions in a country taken together with the current thinking on policy.

The universal prevalence of peasant farming in most countries of Asia and the Far East has led to its being taken for granted that the settlement and development of land resources in the newly settled areas will also be through independent peasant farmer families. It does not necessarily follow that this should be so. For example, if in a country where peasant farming is dominant, it is thought desirable to establish or experiment with say co-operative farming on a large scale, attempt will be made to establish a much larger proportion of co-operative farming units in the newly settled areas than exist at present in the rest of the economy. Therefore, not only the prevalent conditions in a country but also the major policies adopted or contemplated for the future will affect decisions regarding scale and type of units to be established in the settled area.

It may be noted that the great importance of collectives in Israel appears to stem from the suitability of that form for pioneer settlement by private effort in surroundings which were not necessarily hospitable to the new settlers. The pioneering and moral leadership aspects of the Israeli collectives distinguish them sharply from organisational units established in the newly settled areas in old countries under the sponsorship of the state itself.

Neither collective nor cooperative nor state farming has, outside the centrally planned economies and Israel, established itself on any significant scale in Asia and countries of the Far East. Also, in no country of this area has the establishment of the collective or the co-operative type become an important feature of land policy. Almost everywhere it appears taken for granted that the traditional peasant farmer family will continue to be the chief type in agricultural production and that in new settlements also this will continue to be the dominant form.

This appears to rule out of consideration large scale farming but still leaves the problem of size variable within a wide limit. For the scale of peasant farming can itself vary from very small to fairly large. There are two main sets of considerations to be taken into account in determining size of holding in this context. One relates to the economic operation of the holding and its productivity; the second to that of the number of families that can be settled in the area. The desire to have a comparatively large average holding may be connected with belief in the more efficient operation or larger per area productivity of large scale farming. On the other hand, on account of the existing pressure of population or other reasons, it may be thought desirable to settle as large a number of families as possible in agriculture in the new settlements. The two sets of criteria appear to indicate widely differing policies. Whether the one or the other proves dominant is likely to be determined with reference to general economic situation within the country. If land is relatively scarce and the pressure of population considerable in the already well settled areas, the average holding of peasants in most regions will be small. Also the pressure of population is likely to give high priority to the objective of moving a number of agriculturists and others from the already settled areas to the new settlements. On the contrary if the existing pressure of population in other parts is not considerable, not the objective of relief by emigration but physical and economic considerations are likely to prove important in determining size of holdings in the new settlements.

However, no necessarily determinate answer is obtained merely by a reference to the existing conditions in the country. For, obviously in new settlements something more must be attempted than a mere reproduction of conditions elsewhere in the country. In this connection, it is necessary to refer to the concepts of the economic and 'basic' holdings. These concepts have reference not to technical considerations of agricultural productivity but to levels of living which the income from a holding will enable the farm family to maintain. Agricultural policy in the poorest countries with the largest pressures of



population on land is currently influenced by such concepts. The policy aims, if possible, to attain, even in these countries a holding of a minimum size for all agricultural producers and as a first step, the prevention of an increase in the existing number of holdings below this size is advocated and may be sought to be enforced by legislation. Where this is so, it is obvious that the holdings below the size that is considered as the minimum cannot be created in the new settlements even though a very large proportion of the holding in the country is below this size. The poverty of a country or lack of land resources will result in a low level of living being accepted in the definition of the minimal holding, but ordinarily holdings below the accepted minimal level are not likely to be created in the new settlements. The corresponding opposite concept of an upper limit to holdings is likely to have chiefly the effect of discouraging the possibility of allotment of lands to large or capitalistic farmers in the new settlements.

Ordinarily, in countries with inadequate land resources the size of holdings in the new settlements is likely to remain at a level that is considered as the minimum necessary and there are unlikely to be a large number of allotments of holdings above this level. And a policy which has place in it for grants much above the minimum is likely to come under constant criticism. This would not apply to countries in which there is little present pressure of population on land and in which the programme of settlements is directed chiefly towards opening up the country. In this context, the availability of settlers, the resources at their command and the physical and agronomic conditions would be the chief determinants of the sizes of holdings. And in the absence of an adequate number of potential peasant farmers or in view of their inability to exploit certain types of land resort may be had, in part, to large scale capitalistic or even state farming experiments. The range of possible choices in this matter seems thus to be related to the existing pressure of numbers on land in the country.

It is obvious that in the planning of new settlements advantage has to be taken of all the latest advances in science and technology, etc. and developments, amenities and conveniences may profitably and economically be provided in the new settlements which could not without very great additional cost be provided in the older settlements. Also, as pointed above, it would be held wasteful and undesirable to reproduce certain conditions such as uneconomic holdings in new settlements even if they are widely prevalent in the older areas. Therefore, it is inevitable that conditions in the new settlements should be better in some respects than the modal conditions in the older areas.

However, the provision of conditions through state effort in the new settlements which are very much better than the average of conditions in the older areas might be impracticable. It has been noted that even in the U. S. in the rehabilitation and resettlement programme of the 30's "resentment developed against establishing relief families in living standards above the level of those who had struggled for financial survival without public aid".<sup>1</sup>

The actual physical area of the holding will depend on a number of considerations. The concept of the economic holding, for example, is related to the concept of adequate sustenance for farm families. The concept of adequate sustenance for a farmer family will differ widely from country to country, depending on the variations in the actual level of rural living standards in the various countries. The size in physical acres of the holding which yields a given family income will itself depend on the per acre productivity of the land in the settlement. The monetary income criterion cannot thus be translated into a uniform measure of physical acres. The translation will have to vary from situation to situation, depending on the composition of the holding and the productivity of the component units. It is well known that the 160 acre limit of the U. S. Home Stead Act was found inconvenient in the more arid and infertile areas.

Usually two types of problems emerge in connection with land utilisation in newly settled areas. Firstly, the general regulation of the manner in which national resources are used including the problem of conservation and secondly control of the pattern of agricultural production. It is obviously the responsibility of the authorities opening up a new area for settlement to ensure that resources put to productive use will be properly conserved and will not be wastefully used. The conservation programme may itself lead to some control of the uses to which various types of lands are put. Fuller utilisation is usually related to intensity of use. Intensity of use is, in most cases, limited by physical and climatic conditions and limited availability of such resources as water. Settlement authorities may thus find it necessary to frame general regulations in relation to measures of conservation and proper use of land and supply and utilisation of water. Proper use of land may involve compulsory rotational practices or adoption of particular methods of cultivation, etc. Where there is a diversity of land types in a region this may also lead to indicating specific combinations of different types of land use such as irrigation or dry farming or arable farming and livestock rearing within each

<sup>1</sup> *International Journal of Agrarian Affairs*, "Land settlement: the making of new farms," p. 75, 1953.

individual holding. The extent to which all these decisions are imposed directly on settlers by regulations, given to them as advice, or left to the operation of an incentive system or market prices will be largely a function of the general economic policy of the nation.

The terms on which a settler holds land is very important from the point of view of land use as well as that of the socio-economic position of the settler. It may be argued that it will not make any large difference to settlers whether they are given ownership rights or a secure tenant status. It may be expected that all the limitations on the right of landlord laid down by law will be observed by the State or the public corporation acting as landlord, and the privileges granted to the tenant by law will not be encroached upon. In these conditions, the position of a fully secure tenant with a reasonable and determined rent may not differ materially from that of the owner of land. But the problem becomes important when considered as for the long run. That large changes in status may take place during the course of generations even when at the beginning the cultivators were all owners of land, has been shown by experience of countries as diverse as U. S. A. and India.

There are two major ways in which a divergence between ownership and cultivator status can come about. The holder of land may be forced to part with his ownership rights because of, say, his getting into debt but may continue to be a cultivating tenant, usually at-will, on the land formerly owned by him. The contrary process is one by which because of a substantial rise in rental levels the former owner-cultivators, find it profitable or possible to lease out their lands to others and to take to alternative occupations or to live on the rents. In either of these cases, the actual cultivator will be a tenant, might be an unprotected tenant, and will thus not have incentive to most efficient use of land and capital investment.

Similarly problems of subdivision and fragmentation will arise out of arrangements for succession and inheritance. Where as is likely in a large number of countries, the average holding of the settler is of a minimal economic size, any division of it among heirs, etc. or alienation of part would bring it below the minimum desired by state policies and also fragment it. It thus appears necessary to limit the rights of the settler — whether his status is that of owner or secured tenant — in relation to alienation, leasing or sub-leasing, inheritance, etc.

The choice of settlers is intimately connected with the socio-economic objectives governing settlement effort. Three important elements are present in most situations. A socio-economic class such as that of the landless rural labour or those practising shifting cultivation or

a particular class in rural or urban society which is disadvantaged or discriminated against may have to be preferred or given priority. Secondly, the objective of relieving pressure of population in specially congested areas may appear important, in which case agriculturists from such areas, particularly from among those with the smallest holdings may be selected. Thirdly, selection of settlers may be governed by consideration of early success of settlement agriculture. In this case preference will be shown for persons with previous agricultural experience and persons having some resources to invest. Obviously, the two considerations of early and effective economic use and of relief to the disadvantaged and depressed would lead to greatly varying choices. It thus becomes necessary, to effect some sort of compromise such as that of designating, generally, classes to be preferred in relation to socio-political considerations and to make selection among them by reference to the economic criterion.

A problem that is partly social and partly geographical that arises in connection with settlements is of the form that the settlement shall take; two possible extreme types being (i) the nucleated village or (ii) settlement of individual families in scattered farm homes. While geographic considerations and those of land utilisation play a part in this decision, it will depend, in the main, on the social pattern that immigrants are used to and also on considerations such as that of security of isolated scattered farm homes.

The main social aspect of new settlements relates to the composition of the new communities to be built up in the areas of settlement. Decision relating to this is bound to be influenced by current thinking regarding the evolution of national social structure. In most countries of Asia and the Far East, there is considerable differentiation as among communities and among strata. Two alternative approaches may be adopted in framing social policy for the new settlements; one, that of seeking homogeneity on the existing basis in individual settlements and trying to obtain the advantages of smooth working that this will yield, the other that of deliberately bringing about a mixed social composition and attempting to set in motion a trend towards, if not homogeneity, at least a recognition of common interest and identity which in the mixed societies of these countries is an objective to which great national importance is attached. This is one of those instances which often emerge in consideration of settlement policies in which there appear two possible divergent approaches, one based on consideration of short-term results and the other on long range objectives.

One of the main reasons leading states to undertake settlement projects is that of the pressure of population on land. It has been consi-

dered that not only would new or improved land resources add to the food and other supplies within the country but also that the drawing away of numbers from older areas would make possible, may indeed be a precondition of, improvement of agriculture in the older areas themselves. However, in certain circumstances, the exploitation of new settlements may itself cause an increase in growth of population. Such a result may be brought about by some aspect of settlement policy. For example, it has been pointed out that if settlement policy gives larger families a better chance of being selected for settlement in new areas than smaller families, this may act as an incentive in the older areas for having large families.<sup>2</sup> Also, even if the settlement has no effect on population growth in the older areas, it may have some effect towards increasing the size of families settled in the new areas.

In most of these countries, there has been, in recent decades, great increase in net growth brought about chiefly by a rapid and large decline in the death rate without the birth rate being significantly affected. The creation of a new settlement is not likely to affect the basic situation in this regard. All that it does is to improve slightly the relation between land resources and population numbers; but unless the creation of new settlements is supposed to be an indefinitely continuing process, any improvement in the relation must be deemed as temporary. Thus the need for a population policy for the countries of these areas is not, on this account, made less important. However, the process of settlements involves large scale transfers of whole families from their traditional surroundings into a novel setting. To the extent that traditional beliefs and practices present obstacles in the way of implementation of a population policy, the new settlements may be considered as affording an opportunity to those responsible for shaping population policies.

Two considerations have led to a large extension of the scope of state aid and activity in relation to settlements in recent years. The first consideration relates to the pace at which settlement takes place and the period during which the new resources are brought to a stage of full utilization. The second relates to making it possible for the disadvantaged and those lacking resources to participate in settlements. A prolonged period over which resources are not fully utilised itself represents a cost and it is important from the national economic point of view to abridge, if possible, this period. State action directed towards this end may create a public institutional framework or may assist the individual settler. It is possible to take two views in relation to the building up of the public institutional frame-

<sup>2</sup> B. H. Farmer, *Pioneer Peasant Colonization in Ceylon*, 1957, p. 219.

work. This may be left to the new communities in the settlements as they emerge and become active. It will then be related directly to felt needs and will be comparatively cheap. However, such ad hoc approach is likely to result in an uncoordinated structure many parts of which may be unsuited to future conditions and may thus have to be overhauled. The absence of the framework at the early stages may also substantially retard developments.

The planning of the location of residential settlements, road system, etc. is generally conceded to be the work of the State. The argument has to be pushed only a stage further to include all the more important elements in the framework of what might be called the economic and social overheads including banking and credit, marketing and processing, education and public health. Early planning and construction of these systems with proper appreciation of future developments appears more rational; but it requires considerable initiative and activity on the part of the state authorities. It may also mean investment of resources in directions which might not prove remunerative immediately and which may result in rather larger costs being carried than would be the case with slow ad-hoc, chiefly local, developments.

It is possible in this context to distinguish between the plans and their implementation. The plans have to be comprehensive and forward looking and must be results of an initial coordinated effort. Their implementation could perhaps be suitably staggered. This approach, especially if the plans have a degree of flexibility, would both keep down costs and obviate dangers of serious planning mistakes.

Similar considerations apply to the operations of individuals. The resources and competence of settlers will vary on account of different policies and criteria adopted in relation to their choice. However, the experience of settlements where some evaluation of relative costs has been made, as in the post depression settlements in the U. S. A., has emphasized the importance, from the point of view of both monetary and human costs, of early full development. It is thus agreed that the state should take some responsibility even in relation to individual fields and holdings.

If the choice of settlers is made strictly by reference to an early and efficient use of land resources, men with considerable agricultural experience and possessing significant resources to invest in the new holdings will be preferred. However, this would be a class of persons who would ordinarily be unwilling to migrate, if they are already successful in their own region, and also a class which requires the least, assistance or relief such as that afforded through an opportunity

to migrate to a new settlement. The depressed and disadvantaged classes to whom socio-economic and political considerations point are from the point of view of early effective use not likely to prove suitable. They are likely to have almost no resources and would not usually possess significant agricultural experience. In these circumstances the extent of state assistance given to settlers must be fairly comprehensive. Not only will preliminary work such as that of clearing, levelling land and bunding be necessary, but also such provision as that of housing or housing material, minimum agricultural and domestic equipment and even, in some cases, provision for subsistence of the families until at least the end of the first agricultural season become important.

The settlement of a community of small farmers who do not possess significant resources of their own and whose technical competence and knowledge are limited, also makes it essential and urgent that state authorities should provide in advance the institutional economic framework required for the operation of the economy of such a community. A community of small resourceless farmers will require a full measure of technical assistance and organisation of supply of important materials such as seed and manure and also perhaps essential domestic needs. Even more importantly it will require an adequate system of credit and where commercial crops are of any importance a related system of marketing and processing. In the absence of such institutional framework the settlement will either fail or will invite the emergence of the usual type of moneylender-trader class.

What is being suggested is not plentiful or even liberal assistance to settlers, but only that the steps taken and assistance given shall be fully adequate for the purposes in view. It follows that new communities in the settlements must be induced to begin to function normally at the earliest possible period and that all local, communal and voluntary organizations required for the purpose must be brought into existence early. The new settlements cannot expect to obtain more varied, or ampler assistance than is obtained in the ordinary course by other areas within the country. The special aid in capital and organisational terms required for them is strictly related to the main objectives of the aid, that of attaining full utilisation of resources at an early date and that of enabling disadvantaged and depressed classes to participate in the settlement effort.

Wider economic policies having important bearing on the growth and operation of settlements are those relating to prices and to the incomes of the peasant community. The regulation of prices may be undertaken and carried out almost entirely with a view to evening out seasonal fluctuations and dampening extreme variations in prices

from year to year. Such policies, if intelligently carried out and successful influence very favourably the well-being of farmers and of the total rural economy. The new settlements are apt to be, at least in the earlier stages, communities chiefly constituted of somewhat resourceless and not very competent farmers, whose ability to weather economic storms and win through to the state of being a strong and prosperous community is not very large. Some shelter from economic blizzards is particularly required for them.

Policies which support incomes take us a step further. Their direct objective is usually the stabilisation, at an adequate level of farmers' incomes. However, in the context of the countries of Asia and the Far East, we may consider the undertaking of farm income support policies by the State as a somewhat distant prospect. The earlier stages of building a strong co-operative credit, marketing and processing organisation of the small farmer families and of the elimination of risks due to unregulated prices of agricultural products are far from being properly attained in most of these countries.

Finally, we may glance briefly at financial problems connected with settlements. They are numerous and varied. The initial problem is that of estimating capital costs and finding the resources required. The most important element in capital cost would be the irrigation, reclamation, clearance works and such ancillary and subsidiary undertakings as the transport system, etc. required for bringing the project to a point at which settlement can begin. Capital costs may have another aspect, that of cost of the acquisition of land and other natural resources in the area, if these are not already under state ownership or control, so that the initial works can be undertaken and government feel free to plan proper settlement operations. It may be noted that the ability of government or any authority to plan settlement operations properly is vitally dependent on its control of all natural and land resources within settlement area.

One may assume that finding the resources for all capital costs including those of subsidiary and ancillary works will be part of the general resources plan of government. To the extent that there is an overall programme of development for which a comprehensive plan of resource finding is made the finances of settlement projects are not a special or specific problem by themselves. It is likely that a settlement project which, in course of time, is expected to prove productive in the sense of being able to repay all capital and current costs could be financed by a separate arrangement. For example, loans within the country might be raised in relation to such a specific project or international organisation like the World Bank might finance it. However, barring settlement projects finance for which is in this manner



separately possible, all others must be considered as parts, for this purpose, of the total national development programme.

In relation to the problem of obtaining control over the total land surface a number of possibilities are open. The land may be acquired in the open market by purchase from private parties; but if such purchase is attempted after the possibility of settlement projects is generally known, they may encounter difficulties of speculative holding up. In such a context, legislation which enables the government to acquire land at the ruling market price, without reference to settlement project possibilities, would be needed. It is, of course, possible that in particular contexts governments feel it unnecessary or injudicious to pay the market price for all such land and may acquire it by legislative process, after providing for limited compensation.

From the point of view of project administration the important financial problems are those connected with the assessment and recovery of the financial charges on the settler. Consideration of these may be undertaken separately as for capital and current costs. It may be generally agreed that current cost should begin to be borne fully as early as possible by the settlement itself. Financial orthodoxy would require a similar position in relation to capital costs; that is that these should be recovered over a period of years from those classes who receive direct benefits from the settlement. Federal Reclamation projects in the U. S. A. were based on this principle of the recovery of capital costs from settlers; and in the productive irrigation works in India under the British, the state incurred the capital costs and continued to own the work but recovered through its current levy not only current maintenance and other costs but also the interest and other costs in relation to capital expenditure.

Current thinking in this regard appears to have moved considerably away from the orthodox position. This is due to a number of reasons. In the first instance, except in some countries and in relation to a select number of projects, the capital costs of projects have now attained very high levels. Secondly, projects are no longer looked upon solely or chiefly as affording opportunities for a body of persons to settle in agriculture. The widespread indirect and secondary effects including effects on various sources of government revenue, in the long run of the projects have been widely appreciated. This has led simultaneously to a lessening of the influence of the financial return criterion in the decision whether to undertake or not to undertake a specific project. Thus, on the one hand, it has become well-nigh impossible to recover the total capital costs of a project from settlers and, on the other hand, it has been realised that it would be wrong to saddle them with the total burden.

At the same time consideration of the problems, financial and others, of settlement projects against the background of a national development plan has led to a departure from insistence on completely separate accounting in respect of each independent project. A project, whatever its cost and estimated direct returns, would be undertaken if it appeared important and essential in the total plan. This has the counterpart of making it necessary to devise ways by which all those who are in a way in a position to contribute to the development effort are compelled to do so fully, even if they are in a new settlement. The changed attitude does not do away with the need for making charges or levies from the settlers; only it blurs somewhat the distinction between capital and current costs or levies and also shifts the emphasis from costs incurred to the ability to bear the charge.

This also connects intimately the problems of financial levy on the settler with the pattern of the tax and public utility charges system of particular countries. It is, therefore, difficult to generalise in respect of them. In case of settlers the capital levy may take the form of a purchase price for the holding. Usually, this, together with any initial expenditure which is treated as an advance, would be recoverable by instalments spread over a long period.

In relation to the current levy the two major alternative forms are those of a tax and of a service charge. The possibility of making the levy, or part of it, analogous to a service charge depends on the existence of a recurrent service or supply in relation to which such a charge can be made. Where, for example, water is supplied to land periodically by public authorities, the charge for it can be separated and can be related to the volume, the seasons and numbers of occasions of supply of water. When, however, there is no supply or service, as that of water, which is rendered periodically to the settlers and for which a charge can be equitably made, the current levy has usually to be related either to the land surface exploited or to the total actual or estimated product of agriculture. The problems presented, in this case, are closely related to problems of land taxation, or of determination of land rents. Where the state is the landlord the problem of the determination of rents does not appear greatly different from that of land taxation.

Having to recover the levy as rent or tax does not necessarily make the problem more difficult. In view of the large extent to which general revenues bear the burden of development finance at all stages in a large number of countries, no marked theoretical preference need be shown to the service or supply charge. Attention may, however, be drawn to some practical considerations. If the settlers consist, in the

main, of poor peasant families, a charge as that for water supply has some administrative and psychological advantages over a tax demand. Moreover, it is in most circumstances unlikely that the total necessary imposition can be recovered through one type of charge. Service or supply charges, land tax, and direct taxes like that on agricultural incomes may all have to be resorted to. The problem relating to these can be considered only in the context of the financial and taxation systems of the different countries.

All the above refers only to problems of agricultural development. In the long run settlement projects must be looked upon not only, not even chiefly as areas of predominantly agricultural or primary production, but as areas which are capable of developing and which should, in due course, develop a full complex vertical economic structure on lines similar to those of other parts of the country. The settlements ought thus not to be looked upon merely as projects for solving the food or alleviating the population problem but as efforts which effectively and permanently widen the total base on which the structure of national economy is raised. Paying attention to an all-sided development of new settlements from the beginning is particularly important for those countries which suffer from a heavy pressure of population and in which an early diversification of employment opportunities is urgently needed.

## A CEILING ON HOLDING AGRICULTURAL LAND IN INDIA\*

I ACCEPT the concept of the ceiling on ownership holdings and cultivating holdings in India. I accept the concept, however, as part of the general programme of more equal distribution of incomes in society and as counterpart of the ceiling on non-agricultural incomes. In view of the relatively greater pressure on land it might be justifiable to impose a lower ceiling on agricultural incomes than on non-agricultural incomes. However, if no ceiling on non-agricultural incomes is contemplated, it is not only unjust to impose a ceiling on agricultural incomes but the measure is also bound to create grave imbalance in society. In this case while in all other sectors of economic activity, increasing acquisition of wealth and income will continue to be sought after by the majority and the prestige and power connected with riches will remain unabated, in agriculture alone all will be condemned to a fixed permanent low level, above which they will on no account be able to raise themselves. And as this level will be lower than a large proportion of non-agricultural incomes, agriculture will become a permanently depressed sector. Two results will obviously come about. Firstly, there will be every inducement for all the more vigorous and innovating rural elements to seek opportunities in other fields, thus worsening the situation in an already backward field. Secondly, because of the large resources of the moneyed in other sectors, the permanently low level in agriculture will invite and help corrupting influences from other fields to dominate agriculture and rural society. To give only one illustration, at the level of suggested ceilings no agriculturist can afford to enter into politics by contesting elections. Therefore, political representation of agriculturists will either pass into the hands of non-agriculturists or of agriculturists who are supported by non-agriculturist moneyed interest. The situation in this regard will thus become much worse than it is today. Even today the effects of the disparity in money power are seen in the operation of such organisations as the managing committees of Regulated markets.

Apart from the fundamental objection to a ceiling on lands without an income ceiling in other sectors also, land ceilings appear un-

\* *The Indian Journal of Agricultural Economics*, Vol. XIV, No. 4, October-December 1969, pp. 33-36.

desirable without previous preparations in some important directions. One of the main purposes of the imposition of land ceilings is to obtain surplus land which can be used for making uneconomic holdings economic and for setting up co-operative farming societies of landless labourers, etc. Successful use of the land, made surplus by the operation of the ceiling, depends essentially on the possibility of early and appropriate distribution of the surplus land and the setting up of co-operative farms. For doing these, it is necessary to have completed a large programme of experimentation with co-operative farming, establishing how these are best formed and in what conditions they will best operate. Moreover, both for proper distribution of surplus land and for setting up of co-operative farms for better organisation of agricultural production, an accelerated programme of consolidation of land holdings is absolutely essential. From this point of view, substantial programmes in relation to consolidation and experiments with co-operative farms must be completed before land ceiling legislation is undertaken.

Another important consideration relates to the social results of the ceiling. For generations rural society with us has been backward in techniques, and in education. It is only in recent times that some progress has been made in the direction of not only improvement of methods but also in the direction of sons of agriculturists taking to higher education and entering other occupations such as the liberal professions, business, etc. It is obvious that a ceiling of the type proposed will not only stop further progress in these directions but also cause a retrograde movement. An agriculturist, with the highest income allowed by the ceiling, will not be able to maintain a son at institutions of higher education, certainly not at colleges like the Engineering or the Medical. It has to be remembered in this context, that all public facilities, such as of education and medical relief are on an average much more difficult of access and, therefore, more costly to be availed of, for the rural population than for the urban population. Even if a small proportion of agriculturists' sons receive higher education today, that at least these few receive it and that the possibilities exist, is itself an important social fact. The closing of the opportunities through the operation of the ceiling must have a highly disheartening influence on rural society. The only remedy is to have a fully worked out system through which educational, medical and all other public social services are made available to agriculturists and their families in spite of the operation of the ceiling. This would mean a programme of spreading the facilities more widely and a system of subsidies, scholarships, etc., which makes it possible for advantage to be taken of them by those in the low income brackets.

It is obvious that it is highly unfair to operate a ceiling unless these needed measures are completed.

The above represents, in brief, certain important considerations why prescribing of a land ceiling appears at this time inopportune and premature. Even the basic approach is unfair to agriculturists. This appears from several suggestions relating to the exclusions or exemptions from the operation of ceiling legislation which are currently made. (a) One set of these suggestions relate to types of activity in relation to land. Thus "dairy farming", "poultry farming" and "breeding of livestock" are excluded from the definition of agriculture and the growing of fruits or flowers or vegetables or betel leaves is exempted from the operation of the reform measure. It is difficult to understand the logic behind the exclusions or the exemptions. Once the criterion of income is adopted, for determining the maximum extent of land surface to be exploited by any one family for its living, it is difficult to see why one business should be excluded and not another. The growing of grass will be subject to ceiling but not the breeding of livestock ! And what can make bananas exempt but not sugarcane, or betel leaves exempt and not tobacco ? Except for favouring certain regions and classes or unnecessarily and uneconomically diverting land from certain purposes to others, it is not seen what useful purpose will be achieved by such exclusions or exemptions. That most of the activities to which the ceiling will not apply belong to categories in which the urban and non-peasant elements are likely chiefly to engage, makes them all the more objectionable. (b) A suggested exemption which is even more highly objectionable appears to be that proposed in favour of industrial and commercial undertakings. The only possible justification for this exemption may be the argument that such undertakings have sunk considerable capital in developing land and are efficient producers. If this is the argument, it is amazing that it should be applied only to non-agriculturists and not to agriculturists. There are hundreds of farmers who have made very large investments in developing their lands and who, by any test, will be found to be efficient farmers. Their investment will be disturbed and their holdings will be cut up, only because they are not connected with commerce and industry.

It would appear from suggested exemptions and exclusions that a user of agricultural land who is connected with urban type of activities or with commerce and industry becomes privileged and it is only the agriculturist who is discriminated against. This is amazing topsyturvydom. The usual justification for the ceiling is that agricultural land is highly limited in supply while those living by agriculture very numerous. The need for some redistribution is, therefore, urgent.

On this reasoning, it is obviously those who are engaged in the highly remunerative and fully open urban activities and in commerce and industry whose holdings should become first subject to redistribution. The ceiling will reduce opportunities open to rural families in a number of directions; by making it impossible for any of them to gain in money power it will make them liable to exploitation by those who have money power. The least that can then be expected, is that opportunities of production in relation to land and also of any trade, processing, etc. of the produce of agriculture will be preserved for the rural people and that those connected with commerce and industry will not be allowed to encroach on this field. The logical step would be, not to exempt those from commerce and industry from the operation of the ceiling but, to suggest that anybody, who has an income higher than the ceiling income from pursuits other than agriculture, is not allowed to hold any agricultural land whatsoever.

Even if all the above is accepted there might be reluctance on the part of a large number of public men to oppose a reform measure that has been accepted as "progressive". It is, therefore, necessary to consider what alternative measures could be devised to meet the major objectives which a land ceiling is intended to achieve. The problem may be considered in two different contexts: (i) irrigated and intensive agriculture and (ii) extensive agriculture. In the former, the area of individual holdings is not large and the large income yielding units are usually efficiently managed. Here, the ceiling would not yield a large surplus area and would disturb well organised units in which there has been large investment. The most important desirable step, in this case, is to bring all agricultural incomes and property within the scope of direct taxation by the State. This has, indeed, been long overdue and the Government of Bombay should have done this, when it had the opportunity, soon after the reorganisation of the State. The second step that could be taken is to revise the existing distribution of water from public irrigation systems and other sources. Because of a number of developments in the past, there has been undue concentration of this water in the hands of a few big holders,—individuals and companies. The existing distribution could be revised, after due notice, so that no family or establishment gets, after the revision, more than a given quantum of benefit from public water sources. In relation to extensive agriculture, it is complained that large areas have been concentrated in a few hands who do not and cannot manage them economically. In this instance, it is possible to introduce by legislation the idea of a minimum standard of efficiency of land-use. This has been advocated by the Land Reform Panel of the Planning Commission and its application would place into the hands of the

State the inefficiently managed areas, large or small, dry or irrigated.

The measures suggested above would mitigate the effects of concentration of resources. The other aspect of land reform is reorganisation for the purpose of increasing productive efficiency. This is, in the main, a problem regarding uneconomic holdings. In this context, there appears no alternative to, State sponsored and aided, co-operative farming. The main lack, so far, has been a properly planned programme of experimentation in co-operative farming. This should be undertaken immediately. Side by side, thought should also be given to ways in which the process of consolidation of holdings could be greatly expedited.

The land ceiling proposal raises, thus, a large number of complex issues and affects vitally the whole course of the future development of our society. I would earnestly appeal to all concerned to give to these the serious, unprejudiced consideration they deserve and to formulate a total, well-phased programme for attaining the generally accepted objectives.



## CROP LOAN SYSTEM\*

THE following note discusses, in brief, a number of issues of policy which it is apparent are emerging in co-operative developments in India. Beginning may be made with considering problems arising out of the concept of the crop loan and its definition and implementation. It should be noted that the crop loan emerged as a device which could take co-operative credit a step beyond the stage which it had reached previously. At this earlier stage, whether explicitly related to the value of owned land or not, the credit of a cultivator depended largely on his real assets and the loan was made for a twelve-month period and was annually renewable. There was no explicit linking of the loan or its size to the purpose of utilisation; also fairly severe limits on loans to individuals and to societies as a whole were laid down. The result, almost universally, was that in no case could the credit extended by co-operative societies to an individual member serve his needs fully. The co-operative credit system could not, in the circumstances, hope to replace, even theoretically, the moneylender-trader system.

The crop loan sought to transform the situation in two directions. Firstly by shifting the emphasis from real property to the crop as security, it brought in even pure tenants as potential borrowers. Secondly, by relating the size of the loan to the requirements of business it emphasises productive purpose. Incidentally it did away with the older, highly restrictive limits on credits to individuals and societies. The new basis, however, resulted in an exclusive emphasis on the requirements of production credit and benefited most those classes and groups whose requirements of this type of credit were relatively large. Therefore, in considering the operation of the existing crop loan system, it is necessary to distinguish between defects which are inherent in it and those that are incidental to the operation of the system and are, therefore, remediable.

In relation to the latter type, the main problems are of ensuring that the loan is used for the purpose for which it is granted and that repayment is assured at the time of or soon after the disposal of the crop on which the loan is secured. The system of giving a large part of the loan in kind is part of the design to ensure proper utilisation. Theoretically, it should not matter if a cultivator uses any part of

\* A note written in September 1963.

the total resources available to him for either production or consumption needs as long as both are satisfied. The objection to the entire loan being given in cash lies in the danger of insufficient resources being utilised in production, through diversion to non-production needs. The successful formulation of a system of instalments, in kind of crop loans assumes the possibility of isolating items of production inputs which are universally required and whose normal level could be generalised and incorporated into a system. It further raises the problem of ensuring timely supply from reliable sources. The cash and kind division also leads to the concept of instalment. This is itself another device to secure proper utilisation. However, the division of a loan into cash and kind components which are themselves given in instalments implies a close adaptation of that division and instalments to requirements of cultivation and an efficient operation of the administrative loaning and supply system. Thus the crop loan system, whatever its originating impulse, becomes with proper development an elaborate system which goes far in the direction of supervised credit.

On the side of repayments, the crop loan implies establishment of congruence between maturity and disposal of crop and the recovery of the corresponding part of the loan. As the charge is on the crop the repayment has to be closely linked with disposal of the crop. Where such linkage is possible within the overall cooperative system, the crop loan system can work fairly successfully. Where this is not so, there should at least be a logical insistence on repayment of an appropriate part of the loan at a time not too distant from the time of the disposal of the crop on the security of which such loan was extended.

Logically, a developed crop loan system thus involves a full analysis of the credit requirements of a cultivator according to crops, times and types; an appropriate administration of the cash and kind supply and recovery through sales or immediately after. If such a system can be administered in the required detail it would also make available data needed for its proper structuring and also data needed for continuous agricultural and operational improvements.

It has to be realised in fact that even in the case of the co-operative sugar factories, where all the conditions needed are satisfied, neither is the system operated in detail nor are the data collected, analysed or utilised as required or desired. The main initial contribution of the crop loan system has been that of loosening the fetters of the older structure and enabling co-operatives to meet more fully the credit needs of the cultivators. In actual administration of the system, for the most part, the total borrowings continue to be treated as one lump sum, with little pretence at providing supply only when needed. On

the other hand, the recovery instead of being tied to each crop and its disposal is expected on the average at the end of the agricultural year.

This should not lead one to ignore the very real advance in the functioning of co-operative credit brought about by the acceptance of the concept of the crop loan. An essential objective and stage in co-operative progress is the replacement of the moneylender-trader system. An effective inroad in the field occupied by that system was made possible through the crop loan idea. This enabled fairly adequate credit being given to large groups, such as substantial farmers of commercial crops and this made a dent in the moneylender-trader system of a size and quality which was otherwise unimaginable.

This partial initial success of the crop loan system has itself brought into the forefront a large number of complex problems. The numerous defects pointed out in the operation of the crop loan system all derive from insufficient progress in its logical implementation.

The implementation requires that a fuller understanding of the implications of the crop loan system must be achieved among all connected with the co-operative credit system, viz. among borrowers as well as among those who direct and conduct operations of financing agencies at all levels. Even more importantly, it requires considerable enlargement and improvement of the staff of the financing agencies. The required collection and field scrutiny of information, the preparation of elaborate individual loan papers, the administration of loans and their recovery at appropriate periods would not be possible without this step being taken. This conclusion raises two important issues (1) whether the considerably increased expenditure on staff is financially and otherwise possible for co-operative financial agencies at all levels and in all tracts and (2) whether in the future development of the co-operative credit system the administrative tasks resulting from such elaboration could or should all be sustained by the co-operative financial agencies alone. Before dealing with these issues it may be useful to turn to problems outside the strict application of the crop loan system.

The report of the Committee of Direction of the Rural Credit Survey of the Reserve Bank of India, on which present policies are largely based, did not adequately deal with a set of questions. In the main, these are the problems of subsistence of uneconomic farmers, the problem of consumption loans and the problem of the co-operatively backward states. An important finding of the Rural Credit Survey was that the larger and the more intensively developed the agricultural production activity of the cultivator, the larger proportionately was his need for production credit. The crop loan system could, on

this account, meet more or less fully the needs of the more substantial cultivators in most areas, where important commercial crops were grown. This class of cultivators had usually some resources of their own and the crop loan limit for them worked out on a generous enough scale, to satisfy all normal credit needs. The manner in which the shareholding contributions by cultivators to a number of processing factories in Maharashtra were met through crop loans indicates the extent of the margin which, on an average was made available, through crop loan limits to substantial cultivators. On the other hand, the smaller cultivator and the cultivators who grew the less costly crops, because of soil or climatic condition did not equally benefit from the crop loan system. This was because production credit needs played a relatively small part in their total requirements of credit.

The Rural Credit Survey Committee also ignored the distinction between the creditworthy and non-creditworthy farmers which had been drawn by the Agricultural Finance Sub-Committee of 1945. In doing this the Rural Credit Survey was following the example set by the Bombay State Co-operative Bank in its policy resolution of 1948. The distinction between the creditworthy and non-creditworthy made by the earlier committee is, no doubt, important; but it has significance only if concurrently a programme of rehabilitation of the non-creditworthy is devised and implemented by the State. In the absence of such action, the distinction loses meaning because the co-operative credit organisations themselves are in no position to undertake a rehabilitation programme or to give special assistance. The Board of the Bombay State Co-operative Bank was faced with this problem in 1948 when it came to define the amount of loan to be advanced under the crop loan system to various classes of cultivators. In doing this through linking the quantum of the loan to the acreage under crops the Board decided not to exclude any farmer, however small. This was because the definition of a class of farmers below a certain level of holding etc. as non-creditworthy would only have resulted in denying all credit to very large numbers of small holders. This would obviously have been unfair and contrary to co-operative developments so far. Therefore, no differentiation was made in the application of the crop loan system among the various types of cultivators by size of holding or business.

Of course, the crop loan system itself led to wide variations in the amounts of crop loan to which an individual farmer was entitled. The small holder got a loan which was related only to the small number of acres of his crop acreage, and if he grew only cereal and pulse crops, the amount of the crop loan to which he was entitled was small indeed. It was presumably argued that this small loan even the

uneconomic farmer would be able to repay. The natural consequence of this arrangement, to which, however, not sufficient attention was given, was that the credit obtained by these classes of cultivators was very inadequate. For requirements of credit other than those for agricultural production the crop loan system made no provision. Therefore, this system, however elaborately or properly administered, could not deal adequately with the credit problem of these classes of cultivators. The Rural Credit Survey did pay some attention to consumption aspects, but the recommendations that it made, viz. that of practices modelled on the Chit Fund were obviously not likely to meet the needs of the rural small farming community. It should, therefore, be not a matter of surprise that present policies are found to be inadequate to deal with what have been termed the weaker sections of the community.

The crop loan evaluation committee of the Bombay State Co-operative Bank tried to get over, in part, the difficulty by expressly including expenditure on subsistence of the farm family during the off-season as a part of the overall crop loan limit. This was tantamount to broadening the concept of the crop loan and almost to changing its character. It can be argued that if a farm family incurred cash outlay to feed itself during the off-season, this was as essential to growing the crop as any production expenditure. Moreover, if this necessary outlay led the family to contract debt from another credit agency, the operation of the crop loan system was put in danger. However, the acceptance of such reasoning meant adopting a view of the crop loan which related the loan to the broader requirements of the farm family rather than to the direct production credit required by the crop. Another problem raised by this procedure was the relation between the loan and the proceeds obtained through sale of crops. As long as the crop loan was strictly limited to the direct inputs required for growing the crop, the presumption was that the total value of the crop would be normally much higher than the crop loan limit. Once other expenditure such as that on subsistence of the family are counted in, the assumption can no longer be regarded as generally valid.

If the co-operative structure is to fully serve the small or uneconomic farmer class and to liberate it from the moneylender-trader system, it must make credit available for all the production and consumption needs of the farm family. However, if this is done, the security and repayment base of the crop loan system become non-applicable; for example, it is highly unlikely that the proceeds of sale of farm produce by the small farmer will cover his total requirements of credit. However, it is equally true that no alternative base

is readily available, at least not one that can be put in a generalised form. The difficulties are obvious. The small or uneconomic farmer, almost by definition, is not only an agriculturist producer but also obtains income from a variety of other resources. Neither supply nor recovery of the loan is in this case related to the comparatively simple calculations regarding type of crop grown and its returns, which can be put into average generalised forms. The problem would be less difficult, if the other resources of income could also, in some way or another, be linked with the operation of the co-operative organisations. If the supplementary income sources were, for example, live-stock or artisan industry, a separate assessment of requirements and possibilities of repayments could be made for each activity and combined together. (This would, of course, require detailed individual assessment and programming.) Where the other source of income is wage income or remittance, its definition and evaluation become much more difficult. The financial problem of the weaker sections of the rural community then becomes in large part the problem of consumption finance of wage earning classes. As defined above, it is also the problem of production finance of miscellaneous activities about whom no generalised procedure can be formulated. It is thus not only fraught with more risk but requires for administration a much more detailed and individualistic approach. In a sense therefore, developments required for this purpose are in the same direction of supervised individual credit. Ultimately, the only development that can help substantially in this matter is a more close-knit organisation of the weaker sections themselves such as of the small farmers in types of co-operative farming or co-operative bullock or labour sharing units and of wage earners in labour contract, etc. societies. The only sure way of helping weaker sections of the community is trying to spread the network of co-operative production and labour activity among these weaker sections.

Even apart from the special needs of the small farmer, the problem of consumption credit needs now to be tackled explicitly by all financing agencies. It may be recognized that the only base for such credit is that of actual or potential savings. No system can be built in rural India on expectation of voluntary savings. However, it may be noted that it is now a general practice for co-operative financing organisations to make regular deductions for contributions to capital. On the analogy of these, in addition to or in part replacement of these, compulsory non-withdrawable deposits could be created. A certain measure of consumption credit could be given on the ultimate security of such deposits. Such a device is necessary even for the more substantial farmers for the period for which a farmer is not entitled

to draw on production credit lines. This does not mean that the emphasis on production needs or objectives is forgotten or lessened, but that it is recognized that a credit system which claims to be universal must provide within itself for all needs in a systematic manner.

Attention may be paid at this stage, to the problem of overdues which is engaging greater and greater attention in recent years. There are two aspects of this question which need to be considered. In relation to the crop loan system there is the problem of the failure of the crop. This problem, it has become clear during the last ten years, is of serious dimensions in parts of Maharashtra. In a number of districts, crops have failed in certain areas in successive years. With such failure full recovery of loans becomes difficult. It is inevitable that the greater the progress made by co-operatives towards supplying adequate finance, the greater will be the extent of non-repayment in the event of failure of a crop. As yet no procedures have been fully established to deal with this question. It is necessary to elaborate these procedures and to arrange both for proper enquiry and a prompt extension of relief in the event of a significantly serious failure of any crop. The better such a system of relief is, the more insistent can be the demand of fullest repayment in normal circumstances.

A question which has never yet been considered in this context, is the possibility of a measure of relief extending beyond postponement of repayment. Co-operative banks and societies are expected to look specially after the weaker among their members. At present, co-operative banks give rebate to good customers and this is right. They yet do not give any rebate in interest to those who are visited with failure of crops in successive years. It would at least serve as a valuable gesture if it was possible to do something in this direction in the more serious cases. The risk fund necessary to give more substantial relief in the worst cases to which the Rural Credit Survey Committee referred needs also to be set up especially in Maharashtra.

The other point that needs consideration in connection with current overdues is the concept of complete repayment at a point of time with reference to which overdues are defined. It was no doubt necessary in the earlier stages of the development of the co-operative movement to guarantee that at an appropriate time in the year the cultivator worked off his loan completely. It is also proper that the practice of fictitious repayments and early renewal is discouraged. However, when the co-operative becomes the only source of finance for a farm family and when the total loan operations become large the question may be raised as to whether it is proper to expect that an account will be completely cleared at one particular point in the

year. It is necessary in this context, to look realistically, at receipts and expenditure flows in the economy of the individual cultivator. If during the production season the borrowings and the production outlay of the cultivator are increasing, at the end of production season he has not only the repayment but the accumulated consumption expenditure needs to meet. It is well known how consumption outlays in rural India go up in the post-harvest seasons. If the co-operative system, in fact, fully finances the cultivators, the outlays on consumption needs which he has, in part to meet, out of the proceeds of sales of crops are a feature for which some allowance must also be made. Suppose, for example, that in a fully elaborate system of supervised credit allowance is made for a certain outlay on important consumption items by the farmer in addition to his requirements for different production purposes it would then happen that at no time in the year, would his account ever be brought to zero. The banking account of a company with continuous production operations, is never expected to be fully repaid at any one point of time. A good banker watches the accounts to see that they are active in an appropriate manner and that in the slack season, if there is one, outstandings are brought down fairly low. There is, however, no insistence on complete clearing of debts in the renewable limits. When progress is made in the direction of giving full credit and covering consumption needs together with production needs a revised view of definition of overdues may have to be taken. The present formula of complete repayment leads to the need of artificial adjustments in many cases and, therefore, a more satisfactory index of the behaviour of accounts may have to be established. This again is something, which indicates the need for a greater elaboration of administration of credit in the direction of supervised individual credit.

It will be evident from the above that I do not take an alarmist view of the increase in the volume of credit and do not agree with the position that it is necessary to withdraw from the crop loan concept. Current developments may have some undesirable features but they are basically in the right directions. At the same time, they present a challenge and the challenge can be met only by thinking out carefully in advance the principles and procedures of future action. As set out above the main requirements are a fully elaborate implementation of the crop loan system and a comprehensive definition of co-operative credit which will take account of all needs of all classes. It has, further, been indicated that these developments are possible only if a much more detailed administration and supervision of credit reaching down to the individual family, is provided. Experiments with some variations on the crop loan theme are being currently made in



some districts of Maharashtra. These relate chiefly to an increase or decrease of the crop loan limit in individual case to bring about a closer linking of co-operative credit with marketing. This together with increase in the number of processing units may help better performance. There is also the possibility, in some areas in Maharashtra, particularly in the areas of co-operative sugar factories, not only to elaborate the working of the crop loan system but also to watch closely its effects on production and to use it as incentive to greater productive effort. However, all this experimentation has scope chiefly in areas of intensive cultivation of commercial crops and will not help to solve the problems of the uneconomic farmers and of the predominantly foodgrain areas. Moreover, in these latter contexts and areas the resources of the financing agencies, both the primary societies and the District Central Banks, are among the lowest.

Appreciation of this situation raises the issue of the extent to which financial agencies can, and may be expected to, act by themselves in further elaboration and experimentation. The development of a detailed system of supervised individual credit has significance not only for financial operations but also for the entire process of development planning. Therefore, all agencies must help in an appropriate manner in the process. In this context, beginnings have been made in Maharashtra in two directions; firstly, in the joint planning and implementation of annual targets by the co-operative department and the co-operative banks. Secondly, attempts are being made to coordinate fully the work of the co-operative central banks and the co-operative land development banks. But the work must go much farther. It must take in all development agencies in the field at the block and the district levels. Theoretically, something of this sort is presumably being attempted in the package district plans. In practice, very little has been accomplished anywhere. The view still appears general that making a large loan is a development activity, while recovery is a purely financial one. Unless this attitude is changed and the total operations of the financial system are looked upon as integral to the development plan and a shared responsibility of all no further progress appears possible. Also, it is only in this manner that the personnel required for the working of an elaborate system of supervised credit could be made available.

All the above assumes a certain minimum development of the co-operative structure. Admittedly, this is non-existent in a number of states in India. The problem of future developments in these states must be considered, at least initially, somewhat apart from the programme sketched above. It must be considered a serious lacuna in the post-R. C. S. programme and perhaps of the R. C. S. recommenda-

tions themselves that this problem was not separately tackled. The main difficulty in this context is the great weakness of the primaries. Therefore, beginning has to be made with building the structure, so to say, from the top. The situation has, so far, led merely to perpetuation of the control of co-operatives at all levels by the state and its officials. A break-through requires conceptualization of an alternative practicable approach. I have not sufficient knowledge of conditions in these states to think through this problem. However, I shall put forward an idea merely to illustrate what I mean by an alternative approach. It may, for example, be taken for granted that it is impossible at this stage to build up directly co-operative primaries in sufficient numbers. In this case, the District Central Bank may be taken as the initial operative unit on building up which energies are concentrated. The main and vital requirement is that this should be attempted to be directly built as a genuine co-operative organization. And it should be the main task of this organization to promote, supervise and direct the operations of primaries so that they grow up in time as genuine co-operative organizations. In the transition stage, as happened in all states formerly, the central bank could deal even with individual cultivators in the absence of a proper primary structure. A good deal of improvisation and unorthodoxy may be permitted provided a genuine co-operative nucleus is created and it works in the direction of proliferation of its activities. Without some such operational approach and concept the present stalemate in many states appears likely to continue indefinitely.

Finally, some observations may be made in relation to the role of the Reserve Bank in future developments. The Reserve Bank has been an active agent in promoting the development of co-operative organizations during the last decade. It has done this according to a set pattern and through its inspecting mechanism and the terms and conditions of its financial assistance. The success achieved has been remarkable but it appears as if the limit of advance according to this pattern, through these means has been almost reached. Those who shape co-operative policy of the Reserve Bank have to address themselves to two sets of questions. Firstly, what is the new orientation of policy to be. This has to be decided jointly by non-official co-operative opinion and the authorities, *viz.* the governments of the Union and States and the Reserve Bank. The present note has been chiefly concerned with problems of future policy.

The second issue, which must be determined mainly by the Reserve Bank itself, relates to the change in the approach and methods of the Bank. On this only some general observations can be usefully made. Firstly, it appears clear that it is no longer appropriate to adopt and

operate a uniform all-India policy. Possibly, adoption of some aspects of even the earlier programme, e.g., the large sized society, was too generalized. Henceforth, different programmes of action must be evolved for different states in accordance with their existing condition, and the history of the last decade. This will be possible only with a changed approach on the part of the Reserve Bank and its officials. Today, the co-operative organization and governments of states study the terms and conditions of loans etc. assistance of the Reserve Bank only for achieving the greatest formal compliance so as to obtain the largest measure of assistance. The Reserve Bank is able to do little even if it is fully aware of the frequent large difference between the reality and the facade. The situation can be met only if there is real understanding between the Bank and the non-official co-operation and governments of states. No doubt a general framework of policy and of generally applicable terms and conditions of financial assistance will have to be retained. But within this broad frame, programmes of immediate action for each individual state or region will have to be formulated and for implementing these, appropriate short term adjustments in the general scheme will have to be offered or allowed in individual cases. Reserve Bank officials must have informal contacts with and intimate knowledge of those in charge of co-operative organizations and must be able to function in an informal advisory capacity. Two recent developments in Reserve Bank policy appear to militate against this development. One is the reported decision of the Bank to keep on insisting on government guarantee to the largest extent possible. This will mean continued dependence on state governments for co-operative organizations. The Reserve Bank cannot effectively encourage genuine co-operative developments in this context. What is called for, in effect, is for the Reserve Bank to act to minimise the dependence of co-operatives on the state and its officials. Secondly, the Reserve Bank must be more ready to loan out officials on deputation for work in key co-operative organisations in all states when requests are made for their services. The advice of Reserve Bank officials will carry weight only to the extent that it is backed by some genuine practical experience. Also, informal contacts will be made all the easier by such exchange. In all the co-operatively underdeveloped states it is necessary today to create immediately a small number of nuclei of genuine co-operative organization and to try and extend rapidly the influence and numbers of these. How to do this in each particular situation is a matter of detailed study and the Reserve Bank must play its part in this study and in the subsequent appropriate action programme indicated by it.

## A SUGAR POLICY FOR INDIA\*

A LONG-TERM view of sugar policy has long been overdue in India. It is no exaggeration to say that during the last fifteen years, official policy has been shaped almost exclusively by short-term considerations. As a result, government action has, more often than not, accentuated existing fluctuations and added to the difficulties of the current situation. This could have been avoided if, instead, government had a formulation of long-term policy as a continuous frame of reference. I do not suggest that it is possible, at any point of time, to make confidently a full projection of the situation for the next, say, ten years and hold rigidly to such projection, in subsequent changing situations. However, even when full allowance is made for the element of uncertainty and the need for readiness to adapt, it still remains true that no effective planning is possible without a long-term base for policy. Realising fully the risks involved in attempting to sketch the elements of such a policy, I still attempt it at this time, because I consider that a public discussion on this important subject must get started. I, therefore, venture to offer a personal view of the problem, if only for the purpose of being shot at and criticised by others.

Since 1950-51, the area under sugar-cane in the country has increased considerably and the proportion of sugar-cane used for making sugar has also increased. However, the increases in the area under sugar-cane and in the proportion of sugar-cane used for making sugar have neither been continuous nor uniform and have, in fact, been subject to fairly large fluctuations from year to year. The yield of sugar-cane has at the same time been highly subject to the influence of climatic conditions. As a result, the total volume of sugar-cane produced and the quantity of sugar manufactured, though exhibiting a secular upward trend, have varied considerably from year to year. The prices of sugar-cane have been, for the most part, relatively profitable since 1953-54. On the other hand, the profitability of the manufacture of sugar and the relative profitability of the price offered by sugar manufacturers to producers of sugar-cane as compared with the profits of the manufacture of gur and khandsari have fluctuated greatly, chiefly because of the changing policies of government.

\* *Opinion*, Vol. IV, No. 38, January 28, 1964, pp. 7-12.

**Table 1: AREA UNDER SUGARCANE, PRODUCTION AND CONSUMPTION OF SUGARCANE, SUGAR AND GUR IN INDIA**

(Area in thousand acres and production in thousand tonnes)

Year	Area under sugar-cane	Production of sugar-cane	Sugar cane used for sugar production	Production of sugar	Internal consumption of sugar	Production of Gur
1950—51	4214	57079	11147	1118	—	3306
1951—52	4792	61651	15743	1507	—	3292
1952—53	4376	53442	13384	1341	1657	2748
1953—54	3498	44372	10092	1017	1836	2577
1954—55	3994	57834	16267	1605	1750	3021
1955—56	4564	60266	19171	1892	1971	3205
1956—57	5057	68070	21080	2059	2013	3619
1957—58	5080	69107	20065	1988	2075	3861
1958—59	4836	72050	19797	1949	2113	4055
1959—60	5220	76404	24811	2454	2052	3921
1960—61	5789	104122	29864	3028	2126	3421**
1961—62	5942	99853*	27937	2730	2584	—
1962—63	5489	91505*	—	2095†	—	—

Sources : *Indian Sugar* published by Indian Sugar Mills Association.  
*Sugar in India* published by Economic & Statistical Adviser, Government of India. Original series converted to 000 metric tons.

\* *Monthly Abstracts of Statistics* published by C.S.O. November 1963.

† *Monthly Abstracts of Statistics* published by C. S. O. November 1963, excluding production for October 1963.

\*\* *Indian Sugar*, Gur production data for 1950-51 to 1954-55 excluding Khandsari, figures for 1955-56 to 1959-60 include Khandsari sugar.

It is possible to draw some broad conclusions on the basis of the experience of the last ten years. At present relative prices of sugar-cane, area under sugar-cane may continuously expand. There appears considerable margin for future expansion in the area, in particular, if account is taken of prospective increase in irrigated areas in peninsular India. Further, it may be taken for granted that there is considerable scope for improving the production per acre and the quality of sugar-cane in the country and that with systematic efforts in this direction the production of sugar-cane in the more favoured areas in the country, will be on a level of efficiency comparable with the more advanced areas anywhere in the world. Experience with newly established units in the manufacture of sugar within the last decade shows that with some efforts in the direction of increased efficiency,

the cost of production of sugar in India will compare favourably with that of most established older sugar producers and exporters in the world market. The present consumption of sugar in India is at a low level. There is some evidence already of increasing demand even at relatively high prices and there appears considerable scope for further increase in domestic consumption. In the light of the general trend in the demand for sugar in the world, the prospects for the export of Indian sugar appear fair. Because of the need for establishing new staple lines for export for earning foreign exchange, it is urgently necessary to give full consideration, to the possibility of increasing sugar exports and maintaining them at a high level. In this connection, the step taken by the government last year in experimenting with the production of raw sugar in India has proved to be of great importance. The feasibility of profitable production of raw sugar in India has now been established and there appears a prospective international market for Indian raw sugar.

In case these propositions are accepted, it follows that the long-term policy for sugar in India should aim at continuous encouragement of the expansion of cultivation of sugar-cane in the country and of increase in the capacity to manufacture sugar. In relation to the first aim, it does not appear necessary to adopt any novel measure. The present relative prices of sugar appear sufficient to establish the desirable secular trend in the increase in area under sugar-cane. In addition, it is necessary to undertake special intensive effort for the improvement of yields and quality of cane. The programmes in this behalf must be separately planned and must particularly distinguish between areas where present performances are highly unsatisfactory and where they are relatively satisfactory. In relation to the production of sugar, it is necessary to have a long-term policy of steadily increasing capacity and not to be deterred by events in individual years in the pursuit of this policy. The limiting consideration in this regard appears now to be the production capacity of domestic producers of machinery for the manufacture of sugar. It is important to plan for a steady annual increase in the capacity of the sugar industry from the point of view of also keeping the manufacturers of sugar plants in steady employment.

What are the problems that a steady implementation of such a long-term policy is likely to encounter? A steady increase in the output of sugar may be interrupted either because of a bad season or because of a specially large diversion of sugar-cane to production of gur or khandsari. Policy cannot directly deal with seasonal conditions; there is no reason, however, why it should not be able to bring about and maintain an appropriate distribution of sugar-cane supply

between gur and khandsari producers on the one hand and manufacturers of sugar on the other. It is necessary to realise that this problem is on all fours with problems of production in other commodities which have been sought to be dealt with by the government and the Planning Commission under common production plans. We require today a common production plan for gur, khandsari and sugar. The usual instrument so far used by the government in this domain of policy has been that of the variable excise. Excise is placed high or low relative to the advantage sought to be given to the traditional and the less mechanised forms of production in any sphere. Unfortunately, sugar-cane distribution has not yet been visualised as a problem of this type with the result that whereas the manufacture of sugar is subjected to extremely heavy taxation in terms of excise and other cesses, the manufacture of gur and khandsari is almost entirely free. Also there is no uniform policy in this matter and the measures especially in relation to manufacture of gur vary from state to state. The common investment and production plans for sugar cannot, however, be properly sustained in the face of such variations.

There is, at least, a twofold relation between the prices of gur and sugar. In the first instance movements in the price of sugar appear to affect directly movements in the price of gur. Not only are the movements of the two sets of prices in the same direction but also the ranges of variations are largely similar. Further in most movements, sugar prices appear as leaders. Secondly, the supply of sugar-cane for manufacture of gur is, to a considerable extent, affected by the relation between the prices of gur and the prices that the manufacturers of sugar pay to producers of sugar-cane. The relation between these two, established at any time, is likely to be disturbed by two sets of contrary movements; either by a slump in the price of gur or by a sharp rise in the retail price of sugar inducing an equally sharp rise in the price of gur which rise is, however, not reflected in the price offered by manufacturers of sugar to producers of sugar-cane. In view of these established relations, it is impossible for the government to neglect the problem of prices of gur. If, because of inadequate supply of sugar-cane, the production of sugar becomes low, prices at retail of sugar increase; an increase in the price of sugar forces upward the price of gur which by making gur making more profitable to producers of sugar-cane further affects the supply of sugar-cane to sugar manufacturers. Thus a vicious circle is set up which it is difficult to break through.

High taxation of sugar has been justified on the ground that the poorer classes in rural areas as well as in urban areas in some states are chiefly consumers of gur. Sugar in Indian consumption scales is

**Table 2: ECONOMIC ADVISER'S INDEX NUMBER FOR SUGAR AND GUR PRICES**

(1952-53=100)

<i>Year</i>	<i>Sugar Price Index</i>	<i>Gur Price Index</i>
1950—51	108	118
1951—52	109	77
1952—53	100	100
1953—54	109	103
1954—55	100	60
1955—56	94	95
1956—57	102	105
1957—58	118	122
1958—59	121	148
1959—60	127	152
1960—61	127	121
1961—62	128	135
1962—63	134	197

1. Yearly average values refer to sugar season November to October. The yearly averages are obtained from monthly series quoted in R.B.I. Bulletins.
2. Sugar Price Index for 1953-54 and 1954-55 are estimates. For 1952-53 from February to October, the figures are estimates.
3. Gur Price Index for 1952-53, 1953-54 and 1954-55 include estimates in some monthly figures quoted.

thus classed as a semi-luxury. However, a regime of high prices of sugar with low prices for gur is now seen to be impossible to achieve and maintain. Therefore, the government must realise that its ideas relating to the proper price level for gur must be allowed to influence the policy relating to the price at retail of sugar.

It further follows that the government must have a controlling device through which it can regulate not only the variations in the price of gur but also the relative profitability for producers of sugar-cane of manufacturing gur at given prices of gur. As pointed out above, the usual practicable device is a tax element which could ultimately affect the price obtained for sugar-cane. I need not enter into the question of the nature of this device or the range of its applicability. I would merely emphasize that the policy aims I have in view are, some uniformity in regulatory policy relating to gur price and production, and the ability to bring about a measure of parity in producers' prices of sugar-cane for any type of end-product without at the same time permanently forcing high the level of prices of gur.



The other important problems which policy makers have to tackle is the adjustment of a fluctuating supply to demand. It must be taken for granted that the total production of sugar in the country will be subject to considerable variations even after the problem of gur has been relatively satisfactorily tackled. I have suggested that we should aim at a fairly large and increasing volume of exports of sugar. The establishment of the production and export of raw sugar offers a proper base for the building of export policy. A long-term export policy assumes a minimum quota of production for export. It is only on the basis of such a quota that long-term contracts for exports of sugar can be negotiated. However, the operation of such a policy requires ability to project, well in advance of any season, the supply of and demand for sugar in the internal market. Only if this is done can the export market, above the minimum, serve somewhat as a cushion in relation to domestic supplies. Also this is necessary for a plan of rational and specialised production of raw sugar.

*Table 3: ANNUAL SUGAR EXPORTS FROM INDIA*

<i>Year</i>	<i>Sugar Exports (Metric Tons)</i>
1950—51	2295*
1951—52	314
1952—53	14756
1953—54	—
1954—55	—
1955—56	—
1956—57	21795
1957—58	149747
1958—59	38725
1959—60	17448
1960—61	99258
1961—62	406421
1962—63	429092**

Source : *Indian Sugar Industry Annual*, 1961, edited by M. P. Gandhi.

\* Accounts relating to the Foreign Sea and Air Borne Trade and Navigation of India, Ministry of Commerce and Industry. Includes sugars of various standards and molasses (Palmyr and Gur Jaggary).

\*\* From Monthly Abstract of Statistics Vol. 16 No. 6, Department of Statistics, Central Statistical Organization, New Delhi.

It may be assumed that with established relations and some long-term contracts the international market will be able to absorb Indian

exports with a given degree of variability. It is obvious that one must be prepared to experience somewhat large variations in prices received in this market. These may, however, average out fairly in the long run.

Even with the development of an export market supplies available in the internal market will not be fully under control and given the unpredictability of internal demand the relation between internal demand and supply may be subject to severe strains in particular years. This means that the long-term policy for sugar must provide for the creation of a distributive agency which is able to manage, within limits, the fluctuations in the relation of internal demand to supply from year to year. And this must be built up as a normal enduring mechanism. In the absence of such mechanism to deal with annual variations a steady implementation of a consistent long-term policy will not be possible.

I should like to emphasise that all that I have suggested here requires the creation of no new machinery, the adoption of no new policy measures or the imposition of no new restraints or regulations. Control over sales by manufacturers of sugar has been in continuous operation for years. Ex-factory prices of sugar have been often under formal or informal control. There is also currently in operation throughout the country some system or systems of distribution of sugar to the ultimate consumer and an attempt at control of prices at retail. During the past decade many types of regulations and controls have been often imposed and then taken away without allowing time for or even making an attempt in the direction of creating an efficient structure for the distribution of sugar. Not only has the policy been made in the short-term but agencies have been created at short notice and for short-terms. The hasty implementation of *ad hoc* decisions and their quick abandonment has led to great loss of time and money and has left no lasting effects.

My plea is essentially for looking at problems of production, planning and export planning in India for key commodities like sugar as long-term problems which in their essential characteristics have come to stay with us. It is, therefore, best for the government to take the long-term view of these matters and to evolve policies, agencies and instrumentalities which will not only efficiently implement the long-term policies, but will also be found useful when changes in situations make it necessary to make radical adjustments in long and short-term policies. In this effort at regulated and orderly progress and in the furtherance of social objectives and national aims with which the co-operative sector is in fullest sympathy the National

Federation offers its services to government to the fullest possible extent.

Another important aspect of long-term policy is the need for providing adequate penalties and incentives within the policy for efficient production and economic operation. It is possible to point to a large number of aspects of present short-term arrangements which disregard this aspect. Only a carefully framed and consistent long-term policy can properly provide for these and this should be done as soon and as effectively as possible.

## PRICE POLICY FOR FOODGRAINS : ITS IMPLICATIONS\*

IT would be useful to begin by considering how it is supposed that the market in foodgrains works. The main motivating factor in keeping in operation private trade in foodgrains would be the prospect of making a profitable living out of the trade. But the social justification for the system is that it enables supplies to be distributed continuously and evenly in time and space and to bring about some equilibrium between changing demand and changing supply. In passing a judgement on the operations of the private trader, in this context, it is necessary to remember that the chief way in which he can perform this social function is by varying prices and supplies at given locations and at given time in consonance with his judgement of variations of demand and of supply. The trading system operates through the convergence of the effects of judgements of innumerable traders belonging to various strata at various locations and at different times. There is no provision in the trading system for taking an overall view or distinguishing between what may be called the long and the short run. All decisions are essentially immediate or short-run decisions of individuals taken against the background of their own expectations, short or long. To blame traders, therefore, because they raise prices on becoming aware of scarce supplies, is wrong headed.

### *The Market Process*

The market process of determining or making prices does not only reflect in a static manner existing relations of stocks to demand but also, and more importantly, it points to desired corrections in supply over time and space. The pricing process serves to initiate the corrections by indicating the extra margins to be earned through undertaking them. The continuous variations in prices and the reactions of individuals to them constitute the essentials of the price equilibrium system. When prices are fixed through the actions of the state, or a trade group the price variations which act as signals for variations in demand and supply are done away with. Consequently, the authority which attempts to fix prices must also provide

\* *The Economic Weekly*, Vol. XVI, No. 39, September 26, 1964, pp. 1561-68.

a substitute mechanism for equating supply with demand. In the absence of such provision, constant and cumulative excesses in either direction may come about.

### *Implications of Shortage*

This simplified account of the pricing process says nothing about its equitable operation, which depends essentially on the distribution of incomes in society. In a monetised market, demand which is not backed by purchasing power in money has no operative significance. Therefore, when shortages occur supply will flow to areas where demand is concentrated and is backed by relatively high money income and the poorer regions which are difficult of access will be faced with a physical lack of supply. Also, moving prices high enough to cut down sharply the consumption of the poorest is the only manner in which the market mechanism can meet a situation of prolonged shortage. As pointed out above, there is no device within the trading system by which the system itself could do anything about such a situation. Moreover, if by any device, it was able to hold prices at levels lower than the equilibrium level this would create a problem of excess demand which could be met only by some scheme of authoritarian and regulated distribution. The foodgrains market in India is marked by high seasonality of supply, distances and difficulties relating to transport and storages and inelastic demand. In such a market temporary acute shortages may carry prices to very high levels at which they may tend to stick in even a mildly inflationary situation.

It follows that in a country which is attempting to force the pace of development, there may always be an element of unsatisfied demand because of the increased rate of income generation and the trader may be able to take advantage of this situation. However, in such a context it is not the traders who are to blame, but rather the government which itself creates conditions under which traders can make extra profits and then does nothing to prevent traders from making that profit.

### *Action At Two Levels*

I suppose that the new policy will not be based on any unreal assumptions and that there will be no expectation that the average trader will refrain from acting so as to make a high profit when he can do so legitimately, or even illegitimately, if there is little fear of being found out. In these circumstances, the new policy will have

to give due attention to the effects on the operation of the market mechanism of the fixation of prices. Note will have to be taken of these effects for planning action at two levels. Firstly, in the short run, maintenance of fixed prices over, say, a year involves maintaining fluctuations in them within a narrow margin in spite of variations in intensity of demand from place to place and day to day. This can be done only if government or the Corporation or its agents have enough supplies at their disposal to deploy suitably between places and to carry, spread adequately over the year. This requirement points to the futility of the belief that an authority can maintain fixed prices without acquiring control over ample stocks at harvest.

The fixation of prices at a given level has also significance for the longer term equilibrium between demand and supply. It is likely that government policy will favour a level of prices for consumers at which the demand will be in excess of the total available supply. This may happen for either the supply of foodgrains as a whole and even more probably for the supply of a particular foodgrain. In such contingencies action in the direction of some regulated distribution of stocks will have to be undertaken. This may vary from full rationing to controlled distribution, according to households, of limited quantities through fair price shops. The need for such action may arise, even though the level of fixed prices is not specially low, because of failures of expected supply during a particular period or at some places. Maintenance of fixed prices over time needs thus to be backed by reserve powers for requisitioning and for bringing about controlled distribution. The above further emphasizes the need for the abolition of zoning. Economic management with a small margin is possible only if the area of operations is the largest possible.

### *Zones Must Go*

On the basis of this summary analysis more specific observations might be attempted. The fixation of prices of rice, if it is to have any meaning, will have to be done both comprehensively and elaborately, and it will have to be related to the objectives of total food policy vis-a-vis the cultivators on the one hand and the consumer on the other. The price for the cultivator can be a floor price; it can be a support price or it can be a standard purchase price. I assume that government's intentions are no longer confined to maintaining a low floor to rice prices. 'Support prices' in the sense of highly favourable prices may be ruled out in view of the total situation. I take it, therefore, that the prices that are sought to be fixed are standard purchase prices, that is prices at which the cultivator will find it

profitable to sell, and yet on the basis of which the retail prices to the consumer will not be pushed very high. The fixation of such standard prices involves a large number of detailed practical problems. Only the important ones can be referred to here.

It is assumed that progress will be made towards the abolition of zones. The abolition of zones would mean that a movement is set on foot towards equalisation of prices in India. The abolition of zones by themselves would not immediately or by itself bring about such equalisation. In the context of the new food policy, it would be important for government to define very carefully the extent of the operations allowed to the private trader. Will everybody be free to do trading as he likes or will only the holders of licences be able to sell, purchase and sell foodgrains, will the holder of particular types of licences be confined in their operations to particular grains, particular locations or regions or particular stages of wholesale or retail trading etc.? Will a licence to purchase and sell mean also a licence to undertake the movement of foodgrains to any distance? In this context, it appears logical to suggest that even with the abolition of zones, movement by rail, and possibly also by coastal shipping, of foodgrains should be denied to private trade. There are a number of reasons which can be adduced in justification of this measure. In the new situation government must have the ability to control the upsetting effects of sudden fluctuations in demand and supply and the specially strong attraction of metropolitan centres; the control of movement by rail and coastal shipping would be very valuable in this context.

### *Fixing Prices*

Though such restriction will prevent very large movements of foodgrains over long distances it will not entirely counteract the equalising effects on prices of the abolition of zones. Road movements within states would continue. These would be largely over short distances in bordering areas, but would serve as a check. In the circumstances, sharp differences in prices fixed by the neighbouring states would no longer be allowable. Such sharp differences have always given rise to smuggling. One of the main aims of price fixation should now be rationalisation of the levels of prices in the various states so that there is a gradual transition from the low to the high price states.

The task of the fixation of prices, immediately this year, cannot be tackled on the basis of any objective criteria or elaborate enquiries. The only relevant data are data of ruling immediate prices and especi-

ally of ruling harvest prices during the last two harvests. When such data are mapped out, the artificial influence of the existence of zones will first have to be allowed for and judgement must then be made regarding the manner in which from the main surplus low price areas movements will radiate so that the differentiation in prices fixed has concrete relation to availability of local supplies and costs of movements from surplus areas. Another immediate judgement which will have to be made in a somewhat arbitrary fashion is the general level of fixation of the price for the cultivator. This is related to two aspects of policy. One is the evaluation of the element of incentive to sell and to produce more largely next year, that it is supposed necessary to incorporate in the price. The second is the level at which a price that is generous or fair for the cultivator is yet not too high as the base on which the retail price level for the consumer is determined. Some attention must be paid to the agency of purchase to make clear the connection between the two.

#### *Getting Control Over Supplies*

A curious phrase has been used recently in this context. It has been said that the agents of government will buy in competition with the trader. Whatever this may mean, it seems to ignore the handicaps under which an agent of government buying in competition with the trader acts. A mere announcement of a standard purchase price which is fair to the cultivator will not necessarily suffice for obtaining for the proposed Corporation adequate supplies of foodgrains, as long as the private trader acts alongside of the Corporation without any restriction or check. The ability of private trader to do well in foodgrains depends on his capacity to purchase as large quantities of foodgrains as possible from cultivators at harvest. The private trader will, therefore, do all he can to obtain supplies from cultivators and if his new rival, the Corporation, is offering a given price the trader will necessarily offer a slightly higher price to obtain his usual supplies and induce the usual suppliers to sell to him. If the Corporation is limited in its activity, to a given level of prices the trader can, by offering a somewhat higher price, divert all supplies away from the Corporation. If the Corporation, however, offers a higher price, to counteract the efforts of the trader, the trader in turn will necessarily try to outbid. In this way will begin the movement of prices upward, which is said usually to result from the intrusion of the government, or its agency, in trade at harvest.

The objective of getting control over supplies at harvest being paramount for the trader, he would naturally keep on raising his bid



as far as practicable. The only limitation on the increase of the offer of price by a trader would be the level at which he can expect to sell at retail or to intermediaries who sell ultimately at retail later in the season. Given two conditions, that there is shortage (and this, in relative terms, will always be there) and that all supplies are in the hands of the traders (and this condition is always fulfilled substantially a few months after harvest unless government or the co-operatives have bought up a very large part of the crop), there is practically no limit, as has been demonstrated this year, to the extent of the possible increase in prices at retail. Therefore, the trader can safely offer continuously higher prices as against a Corporation in order to put himself into position to profit from the shortages that begin to be felt after harvest. Thus the mere fixation of purchase prices and the setting up of a Corporation to make purchases at fixed prices would merely push up the level of purchase prices but will not obtain for government the supplies necessary to give effect to its policies. For doing this the major needed additional requirement is the fixation of prices of sales at retail.

### *Futility of Fixing Profit*

It is an important objective of government policy to make food-grains at fair prices available to the consumer. The determination of prices fair to the consumer is, therefore, essential for fulfilment of government policy and the guarantee of fair prices and keeping watch over their maintenance can be done best by direct announcement of retail prices. The determination of margins of traders has often been attempted in the past in the place of specifically determined prices at retail. However, the determination of a set of margins applied to a fluctuating base yields indeterminate retail prices. When numerous traders are making purchases at various times, the sale prices charged by them, calculated as a per cent over their prices of purchase can be known only after detailed calculations. In the circumstances, persistent infringement of regulations in this behalf can only be proved on highly detailed enquiry. Furthermore, there exist many stages of intermediate trading between purchase from the producer and retail sale to the consumer. The determination of detailed margins at various stages and the identification of a transaction as having taken place at a given stage are again matters which depend on close examination of records, identification of particular transactions and elaborate calculations. It is obvious that any system of regulation of a trade, as far-flung and large in volume and in number of

transactions as that of foodgrains, which involves continuous elaborate enquiry for proper supervision and checking must be found unworkable. This has been amply proved by experience during the last decade.

#### *Details of Price Fixation*

If there are to be any sets of fixed prices announced by government, these should be only at two levels. Those of (i) purchase from the cultivator defined as of purchase either in the village or of purchase at some primary market and of (ii) retail sale to the consumer, defined for particular areas and locations. The difference between the purchase price and the retail price will have to be determined in relation to some calculations of the margins. This margin apart from the commission and handling, etc. charges will include an average allowance for transport costs. The total fixation of the elaborate price schedules at the two levels will have to be done in two stages. The Government of India should determine the broad levels of purchase prices and retail prices. On the assumption that there will be no zones, the Government of India should also determine the permissible margin of difference between the levels of purchase prices as between state and state. The determination of the level of retail prices involves calculations regarding margins at various stages of intermediate trading and an averaging of handling and transport costs.

On the basis of the broad levels or ranges of prices indicated by the Government of India, each state should be asked to work out the detailed notification regarding purchase and retail prices. For price fixation to be effective, these notifications will have to be elaborate. The purchase price notifications will have to have as their base each district or producing region for a given crop. In the light of the level indicated by the Government of India and the permissible inter-state margins, the state will define for each district or region, the fixed purchase price for each sort or kind of the food-grain and for each recognised quality and grade within it.

Price fixation, to be effective, must be meaningfully related to specific varieties or sorts and their quality. There has to be a detailed description attached to each fixed price and there has to be provision made for determining gradation of produce and for checking the grades in course of supervision of trade later. It is the experience that without detailed specification and price description and in the absence of grading arrangements price fixation can be easily reduced to a farce by the trader. The difference as between different varie-

ties or sorts or as between different qualities would be to begin with embody traditional judgment and market indicators in the recent past. In later years a dynamic policy in relation to them can be adopted. The same is true of difference in prices in the levels as between different production districts or regions. It is important that the State Notification should cover the entire region of the state and should take account of every production region or area however small. It does not, however, appear necessary that, at least initially, all sorts or varieties must be covered. The most highly priced varieties which are clearly separately identifiable may well be left out of regulation. The chief safeguards in this behalf are to see that the varieties brought under regulation cover, say, 80 per cent of total production and to ensure that evasion is not made too easy through the varieties that are left out.

### *Retail Prices*

The fixation of prices at retail will have to be equally elaborate, in the sense that a retail price must be indicated for each variety and quality for which there has been a fixation of a purchase price. The base for the fixation of prices at retail would have to be the main consuming areas so that, in accordance with the general directive of the Government of India, the prices at retail in relation to specific sorts and qualities will be notified as for each important city or town area. Care will have to be taken to see that the announcement of retail price covers all locations, *i.e.* where in a district only for a few important towns or municipal areas separate retail prices have been determined, there should be a schedule of prices at retail for the rest of the district including all its rural parts. The extent to which a price schedule is elaborated will depend on the government of the state and will be related necessarily to the arrangements for distribution of the foodgrains made by the government of that state.

The above appears to be the minimum necessary elaboration for the attainment of a fixed set of foodgrains prices. Within this framework it should be possible for a Corporation or for co-operatives within the states to obtain a fair supply of foodgrains from the open market. The operation of the trader will now be limited by the maximum prices obtainable at retail and he will not be able to push up purchase prices beyond a certain level. If the Corporation and the co-operatives are able to operate at relatively small margins, they should be in a position to obtain a fair share of the supplies offered by the cultivator. Two requirements appear essential in respect of purchase arrangements. The first is the provision of arrangement to

purchase and to store at a large number of points all over the country. The extent to which the purchase price will be effective will depend on the extent to which the alternative purchaser to the trader operates within or near the location of the cultivator. Therefore, a set of dispersed purchase points at which the Corporation or the co-operative is equipped to grade, weigh and store produce and pay for it or make advances on it must be maintained. The minimum number of such points for satisfactory administration would seem to be between 40 and 50 per district. It is conceivable that a newly-established Corporation at the all-India level will be able to provide this number of purchasing points throughout the country, without seeking co-operation of either the state authorities or the co-operative system in each state. In the long run also it appears neither possible nor desirable for an all-India Corporation to act in the various markets on its own without using local agencies. There is already such a large measure of organizational effort and storage capacity built up through state and co-operative systems of management of agricultural produce, that it would be an act of national waste to try and raise alongside of these a third system of a new all-India Corporation.

#### *Limits of All-India Corporation*

It is likely that the all-India Corporation is at this stage thought of as operating in only a few surplus districts and not affecting all areas in various states. A Rice Corporation, for example, may be conceived of as acting only within a small number of districts in some surplus states and not acting at all in any district in some states. To be content, with such a concept of operation, is however, to misconceive the whole issue. Fixation of prices has no meaning except as being operative all over the country. It has been indicated above that fixation of purchase prices all over the country would have no meaning except as accompanied by fixation of retail prices. Any attempt at the maintenance or enforcement of prices at retail would be entirely dependent on deployment of sufficient stock through a system such as that of fair price shops. For this being done, the purchase and sale operations must be on a significant scale within each state. An all-India foodgrains Corporation has thus meaning only as the apex of a system of which there are constituent operational parts within each state. It is a matter for practical choice whether these operational parts are themselves independent state systems, or act as agents, within the state, of the Corporation.

There is another reason why only limited operation by an all-India Corporation will prove to be inadequate and fruitless. A major task

before the Corporation will be the adjustment of supplies as between the deficit and surplus states. This is an essential job which the contemplated Corporation must take on itself. The movement of surplus away from surplus states and meeting the needs of a deficit state is a task that can be kept within manageable proportions only if fairly uniform systems of purchase and distribution are operative within each state. If they are not so operative, difficulties will arise in both connections. If there are no systematic purchases planned in districts of the surplus state and if there is no fixation of prices at retail the operations of the trader within the surplus state cannot be put under control and the Corporation will find it difficult to make its purchases except at constantly increasing prices. On the other hand, if there are no planned systems of purchase and sale within the deficit states, the deficit states could, at any time, find themselves in a crisis and would be making constantly increasing demands on the Centre for supplies. All this is part of the experience since the days of zonal planning. The abolition of zones will put a pressure on the surplus states to have a system of food management of their own. The regulation of retail prices in deficit states will also give some protection to them in their operation. However, if the basic operative state systems are not built up, the activities of an all-India Rice Corporation will mean no more than some addition in respect of rice to the activities in respect of wheat which the Government of India indulges in on the basis of PL 480 supply. The Rice Corporation's action will be much less effective than that of PL 480 supplies as it does not increase the net supply but acts with supplies obtained from within. As has been the experience in case of PL 480 supplies release even of large quantities of these supplies do not at all times succeed in restraining high rises in prices. Obviously, thus, the activities of a Corporation if undertaken in a circumscribed manner will make no contribution to the fixation of prices and to the maintenance of fixed prices over time.

### *Co-ordination*

When zones are abolished it will also become necessary to see that the systems of operation and levels of prices fixed by the states have correspondence with each other even apart from the operations of an all-India Corporation. For example, even if jowar is not handled by any all-India Corporation the prices and trading in jowar in contiguous states, say, Madhya Pradesh and Maharashtra cannot be too disparate. The level of purchase price for jowar in Maharashtra will have to be determined both with relation to purchase and retail prices

in Madhya Pradesh and the level of possible retail prices in Maharashtra in relation to, say, price of *atta*. This illustration will make clear how with a comprehensive view of state systems co-ordinated by an all-India body the working of each, in detail, will be restrained and put within a meaningful framework.

The basic propositions on which my exposition is based are as follows. No prices can be fixed and maintained at the fixed level by any authority without the help of trading operations, both of purchase and of sale. It is possible to operate a system merely of floor prices with only purchase arrangements. To limit the price to a fixed level or within a narrow margin only purchase arrangements will not suffice. The control of cotton prices operates with a very wide margin—a low floor and a high ceiling. Even so government is seen to be much more powerless when the ceiling is pierced than when the floor is reached. Experience of the last ten years has consistently and repeatedly proved the ineffectiveness of announced prices, legal regulation of margins or of official threats in the absence of the ability to act in the concrete. Licensing of traders and the calling in of returns is also of little use. Licensing by itself affords no check and the returns are never subject to scrutiny or compiled or collated in a manner that could give assistance in administration. They cannot be made the basis on which the location of stocks or the movements of foodgrains can be kept under close or constant enough surveillance, even if scrutiny and compilation are made much more prompt and elaborate. The control of margins is ineffective because checking involves detailed enquiry and firm identification of transactions at both ends. Regulation of price through defined margins is for the same reasons inconvenient and harassing for the honest trader.

### *Prices, Purchase and Sale*

The simplest effective approach to definition of the price structure is by prescribing the two end limits, *viz.* the purchase price paid to producer and the retail price charged to consumer, and taking the minimum necessary action for their maintenance. The two aspects of this action, purchase and sale, are mutually related. Without a proper purchase organisation the maintenance of the purchase price cannot be ensured, also without adequate purchases the supply need to maintain the retail price could not become available. On the other hand, it is only the ability to guarantee that retail price does not increase above a given level that gives firm basis to the operations of institutional purchasers in the open market; and keeping the prices

of foodgrains at a reasonable level is an even more primary and urgent objective of socio-economic policy than ensuring high prices to cultivators.

The task to be attempted is detailed and countrywide. In terms of any proper definition of national priorities the aboriginal and other population of inaccessible areas has as high claim on and as much need of protective action by the state as the labouring classes of big cities. The rural economy of all areas, secure, insecure, deficit, surplus, stands in need of the boost given by good prices for the producer. An all-India Corporation acting in a small number of surplus districts in a few states cannot fulfil, by itself, these requirements. It can do so only if it is the apex of a system operating comprehensively in each state. It has also to be realised that unless all states, deficit or surplus, are induced to adopt certain minimum policy objectives and action measures there will be failure in the long run. The case for such conjoint and co-ordinated action is overwhelming if the aim of national policy is not only that of getting over a short term crisis but also of building up a permanent system which will lead to the most rational and economical management of internal supplies and will progressively decrease our dependence on imports of foodgrains.

### *Two Levels of Action*

The total task has to be divided clearly into two; action at the all-India and that at the states level. Each of these has elements of both price fixation and of purchase and sale operations. The all-India organisation should preferably handle together all foodgrains and pulses which enter into the trade between states to any significant extent. It would have the monopoly of inter-state movements by rail or coastal shipping. It should not aim to create an independent organization in all respects, another empire. This will be wasteful of scarce national resources and will lead to difficulties in co-ordinating and rationalising policies and action. It should act through existing organisations in states and other territories and also use available public facilities such as those of warehousing and storage to the maximum extent possible. If such an all-India Corporation is set up it should be entrusted with the handling of all imported supplies of foodgrains. Such a Corporation will sell to and purchase from only the accredited agencies within a state except in areas where such agencies cannot be set up or where their performance is inadequate. It follows that there must come into existence in each state, systems of management of foodgrain supplies which will purchase and sell foodgrains grown within the state, receive imported supplies for

distribution within the state and receive surplus supplies from other states or send out surplus supplies of own state produce, from and to either the all-India Corporation or the other state systems. The state systems could be either departmental or managed by a State Corporation operating with the help of the co-operatives.

The fixation of prices will also be done in two stages. The first stage is that of fixation of basic levels of (a) purchase prices from cultivators and (b) retail prices charged to the consumer, for all important foodgrains and the permissible margins in both price levels as between state and state. This must be done for the country as a whole. The second stage is that of elaborate price notifications for each regulated sort and quality of purchase prices of a foodgrain for each production region and of retail prices for each area or location together with all the descriptive detail necessary for effective implementation. The determination of fixed prices, in both stages, this year will necessarily be quick and *ad hoc*, largely based on past experience and limited by estimates of practical effective immediate action. In future years, if the system gets properly built up, the basis of action could be made more sure and the price fixation begin to be used as a dynamic instrument of policy. Apart from an operative Corporation or a price-fixing Commission, the system will necessarily require high level co-ordination of State and Central policies in relation to foodgrains.



## SOME BASIC ASPECTS OF INDIAN FOOD POLICY\*

THE Union Food Minister stated in Bombay some time ago that food policy has to be related to agricultural production policy and that the producer of foodgrains must be offered an economic and incentive price. He did not refer in this context to the specific problem of the connection of the prices of foodgrains with those of other crops, especially commercial crops competing for land with food crops. Presumably the term "Incentive" covers or should cover this aspect. He also did not note the relevance of proper timing of the announcement of prices if they are to act as incentives.

Shri. Subramaniam laid down as another objective of food policy that consumers in all parts of country should get an adequate supply at a reasonable price throughout the year. He maintained that neither the requirement of giving an incentive price to the producer nor that of ensuring supply to the consumer at fair price could be met if you operated through private trade. Therefore, it was necessary to establish direct contact with the producer and to set up an appropriate machinery for distribution.

### *Fair Price Shops*

There is at present little difference of opinion regarding distribution policy. The system of fair price shops has been set up and is being expanded. That its operation should be extended as far as possible in rural areas is admitted. The one policy problem in this field to be faced immediately is that of introducing statutory rationing in the bigger cities. This is favoured by the centre and has been accepted for Calcutta. It is likely that Maharashtra may soon give up its earlier opposition to the proposal. However, success of rationing depends on a regular flow of supplies and the central problem is that of obtaining adequate supplies.

We have to think mainly in terms of production and procurement within the country. External supplies cannot easily be augmented. The availability of PL 480, our ability to buy abroad and our ability to receive and distribute all seem to have reached a limit. In this situation the Food Minister emphasizes, there are bound to be diffi-

\* *Maharashtra Co-operative Quarterly*, January 1967, pp. 1-9.

culties and there are bound to be scarcity areas. The food policy in the immediate future, must be framed for dealing with this situation and be specifically directed towards the procurement of supplies internally.

The policy may either be nation-based or state-based. The first would involve drawing up a national plan on the basis of estimates of supplies and requirements within each state etc. and the measures for purchase and procurement, rationing and distribution etc., for each state. It would also indicate in detail the prices to be paid to the producers and those to be charged to consumers. The successful operation of national policy depends on the formulation of a consistent national plan-frame and the acceptance and faithful implementation by the central government and governments of all states of the needed policies and measures.

Obviously evolution and operation of national policy in this matter is highly desirable. Although, the possibility of the adoption of such policy immediately appears thin. The surplus states are not to be persuaded to undertake the effort required. The Central Government appears unprepared for formulating it; the statistical foundations are said to be shaky and the Food Minister insists that the present arrangements should not be disrupted. A realistic discussion of the problem, today, needs to be conducted on the basis that policies will continue to be state-based.

State-based food policies inevitably result in a very unequal distribution of the burden of difficulties and of the incidence of scarcity as between state and state; they make the problems of the deficit states almost intractable. Management policy has consequently to be elaborate and rigorous in the deficit states.

A curious aspect of recent developments is that the lack of confidence engendered by the deteriorating situation and the proved inability of governments to deal with it have led to the emergence of considerable concern and anxiety in each local area with the local situation. State governments caught unprepared have had to impose considerable burdens on local administrations and give considerable latitude to them. This in turn has intensified local sentiment. The total result has been a great increase in the difficulties of management in deficit states through imposition, formal or informal, on local movement and the effective sub-division internally of the state into surplus and deficit districts.

### *No Reasoned Plan*

A preliminary requirement in the deficit states is thus the evolution of a uniform food policy for the state as a whole and the maxi-

imum reduction permitted of the discretion in both procurement and distribution, by local authority and administration. This implies, of course, the preparation of an overall food budget with detailed break-downs both by areas and by months and the ability to implement it.

Shri. Subramaniam contended that the Maharashtra Government should not have launched on a monopoly procurement scheme without having taken care to build reserve strength, that existing channels should not be disrupted without capacity to replace them and that for the time being one should be content with strategic controls. But no reasoned plan of any such controls has emerged during his tenure of office. The Food Minister's warning not to disrupt existing channels is even more difficult to understand. In the food situation as it existed in states like Maharashtra in June 1964 what was it that could be considered as functioning with even minimum order and efficiency? Private trade had failed to distribute supplies and to halt the constant increase in prices. The frequent requests and threats addressed by ministers at the Centre and the states to traders in foodgrains amply testified to the breakdown of the system. The state was thus faced with the problem not of trying to replace a working arrangement but of providing some substitute for a system that had already disrupted.

The justification and the success of operation of the jowar procurement scheme are to be judged in the light of the circumstances of the latter half of 1964. The Food Minister has indicated 30 per cent as the marketable surplus of jowar in Maharashtra. All the data regarding marketed quantities in detailed studies of farm business in Maharashtra indicate an overall limit of about 15 per cent of total production. In this context the actual performance cannot be considered disappointing.

### *Question of Levy*

Moreover, we have a relevant test of what might have happened in jowar in the absence of monopoly procurement in the results of procurement of the other important grains in Maharashtra, *viz.* rice. The State tried to procure rice by the usual means of a levy on millers, which possibly the Food Minister approves. The result has been extremely disappointing. The government secured very scanty supplies and the result of leaving the rest with the millers and the trade has not proved at all happy.

The Minister maintains that the monopoly procurement scheme was a half-way house and that logically government should have

gone on to a levy. He expressed preference, in theory, for the logical approach of procurement by compulsory levy and rationed distribution. To this approach, however, he had two objections. Firstly, that it involved the intervention of the lower administrative staff which leads to corruption and secondly that compulsion is unpopular and would lead to ministers being defeated. The possibility of using co-operative agency for a large part of procurement operations should reduce the first objection to a considerable extent. As regards the second, it is obvious that if ministers are unwilling to run some risk in pursuing what they think to be the right policy there is little hope for the country.

### *Vulnerable Section*

We may now return to the central question of the appropriate measures for procurement and distribution for deficit state. Granted that private trade in foodgrains cannot function satisfactorily in a chronically deficit economy the main problem is the definition of the minimum required action on the part of the state. In so far as the Centre is pressing rationing in the cities on the states, it may be taken to hold that difficulties of detailed local administration in this regard are not overwhelming. Socialisation of retail trade in foodgrains can thus go far in a state without incurring the wrath of the Food Minister. It is the socialisation of wholesale trade that is the crux of the matter; within this the really sensitive area is that of procurement from the cultivator. The Food Minister agrees that for an effective guarantee of the incentive price it is important to establish direct contact with the cultivator. What is the extent to which and the conditions under which it is necessary and possible to do this ?

A deficit state may be defined as one in which the fullest extent of the marketable surplus available from internal production plus the currently available supplies from the Centre do not together meet internal demand completely. The free market approach is to raise prices high enough to cut off part of the demand from the poorest strata. As this solution is not, should not be, socially acceptable the state has to intervene. The matter in which the state can curtail demand without raising prices against the poor is by sumptuary regulations and by regulated distribution.

It is unfortunate that governments of deficit states like Maharashtra have not realised the importance, physical and psychological, of sumptuary regulations. It is obvious that conditions in Maharashtra are at least as difficult today as they were in Bombay Presidency during the worst days of the War. Adoption of the full set of

rigorous regulations then in force will not only save substantial quantities of foodgrains but will also demonstrate that the government is subjecting the rich to, at least, some hardships.

### *Regulation*

The other way of limiting demand is to adopt rationed or regulated distribution and to adjust quotas within it. The great merit of this method is that it enables adjustment of supply in relation to physical needs to some extent and not entirely according to availability of purchasing power.

However, the state can adopt the approach of regulated distribution only if it directly controls supplies. The more fully it controls supplies the more completely can it distribute equitably. Full control of supply means obtaining the entire marketable surplus directly from the producer and completely regulating its flow until it is issued in a measured way to the consumer through the fair price shops. The extent to which any private interest intervenes at any stage of this process the risk of leakage is incurred; thereby the deficit is increased and risks of a price rise and of inequitable distribution enhanced.

The same conclusion is reinforced if the matter is reviewed from the price angle. The double aim of an incentive price to the producer and an equitable price to the consumer can be fulfilled only if the costs of intermediate handling are kept as low as possible and if no fluctuations in prices are allowed to take place because of variations in supply in space and over time. Both these conditions can be fulfilled only under socialised trade *i.e.* when a socially responsible organisation purchases directly from the producer and all stages upto the consumer are similarly managed.

Therefore, not only theoretically but also practically it is essential for governments of deficit states to socialise the trade in foodgrains immediately and to obtain as large part of the marketable surplus as they can directly from the producer. The requirement of direct purchase in a deficit state is thus large and urgent; what are the conditions under which the government's requirements of direct purchase in a deficit state can be fulfilled? Purchase in the open market side by side of trader, is ruled out, almost by definition. In a deficit economy the chief objective of the trading community must be to get control over supplies at harvest almost at any price; because if they can thus control sufficiently large supplies they can, almost, dictate prices later in the year. Therefore, some exercise of authority by the state is inevitable. The extreme version of this is to ban all sales by producers except to government and also prescribe according to some,

more or less elaborate formula the quantities of foodgrains that each producer of foodgrains must sell to government out of each crop. This is the compulsory levy.

### *Compulsory Levy*

The levy involves detailed calculations in respect of each producer and the enforcement of individual collections. It requires elaborate preparation, a large staff and might cause hardship and resentment unless administered carefully. It would have been difficult for the Maharashtra Government to administer a levy in the circumstances of last year. The monopoly purchase plan has proved politically acceptable and has worked satisfactorily. In spite of high ruling prices at least half of the marketable surplus of jowar has been obtained.

However, there are certain features of this system that require amendment. Very large village sales were allowed under it last year, on the understanding that they would keep rural areas fully supplied throughout the year and that this would reduce the burden on the system of rural distribution. This has not happened, and the complaints from rural areas are as large as ever. The concession has been obviously abused and considerable leakage has taken place because of it. Village sales should next year be confined to small quantities required by neighbours for own consumption. Again, imports of jowar were allowed by private traders under the belief that they would add to total supplies. This belief has been falsified and the provision was used for defeating the operation of the main system. It had also been agreed that declaration of production and stocks would be called for from all the bigger producers. This part was not implemented and government has found itself powerless to do anything to check hoarding by this class. Early and strict enforcement of the declaration is needed in the ensuing year.

### *Rice Purchase*

Another essential step is to extend monopoly purchase to rice. A levy on the miller is self-defeating in its operation. Apart from the large evasion it makes possible, it guarantees leakage of supply into private trade and thus makes price control and equitable distribution impossible. The only role left to the rice miller should be that of milling, for a proper charge, for the agency that purchases paddy from the cultivator on behalf of government. Because of the crucial state of milling, monopoly purchase of rice should prove even easier and more successful than that of jowar.

In discussions of policies in deficit states little attention is paid to the overall strategy of distribution. It is assumed that at least next year deficit states will not have sufficient supplies to undertake rationing in all cities and regulated distribution in all rural areas. The government must, therefore, act on the assumption that it can only meet limited requirements of some areas and strata within the population. Certain foodgrains such as wheat, bajri, maize and inferior millets in Maharashtra will be outside monopoly purchase. Their supplies and the supplies of pulses would be available to some extent. There will be legitimate village sales in limited amounts.

### *Distribution*

The operation of and prices in the market of all these will themselves depend on the extent to which and the areas in which supply by government is made. An important reason for cordoning off cities and introducing rationing in them is that centres of high prices which are likely to disturb outside markets are thereby eliminated. On a similar reasoning government distribution policy in deficit states must be directed towards supplying areas which are strategic in relation to prices. In addition the policy must take into account the needs of the most vulnerable classes and backward areas, because shortage here would cause very considerable human distress. These are broad statements which must be interpreted in detail in relation to the total circumstances of the state.

The circumstances of the deficit states are such that the largest possible effort at vigorous and intelligent management of which the politicians, the people and the administrative machinery of the state are capable must be made. What of the Centre and of the surplus states? The Centre is directly responsible for distribution policy in some areas. In regard to these there is no reason why its policy should be more liberal than the one it imposes, through its action or inaction on deficit states. In fact, it ought to set a national example by introducing sumptuary regulations and rationing as strict and limited as to quantum, as it would advocate for, say, Calcutta or Bombay in, at least, the capital city of Delhi.

The Centre has little scope for direct procurement from cultivators but it plays a crucial role in food policy through the allocations it makes of supplies from abroad and from surplus states. Even though it may not be possible for the Centre immediately to formulate a national basic plan and impose uniform policies on all states, the Centre can at least make its immediate allocation in view of a possible national plan. This means that the Centre tries in the light of all

data and information to assess supplies and requirements in each state and to allocate supplies in accordance with the need and the quantum and seriousness of effort of the state. In short, it does an exercise of the type that, say, the Finance Commission has to make.

### *Clear Aims Needed*

The Food Minister has claimed that his policy is that of a pragmatist. Pragmatism in relation to food policy in India may be interpreted in two different senses. It could imply a policy that is clearly defined as to its long term aims and attempts to attain these by a series of realistic steps. Or in the absence of the definition of the long term aims it could mean shifting *ad hoc*, short term steps following the prevailing opinions and prejudices and justified under the name of realism. The Food Minister owes it to himself to state explicitly what his aims are (whether, for example, he accepts socialisation of the trade in foodgrains and the formulation of a national basic plans as aims of policy) and to indicate, as far as possible, the concrete steps by which he hopes logically to achieve those aims. The only two new steps taken by the Minister are by way not of defining policies but of creating agencies, *viz.* The Agricultural Prices Commission and the Food Corporation.

The Agricultural Prices Commission is so far reported to have made recommendations only in relation to minimum prices. This is hardly helpful in terms of shaping a realistic policy. The commission must be able to produce a set of incentive prices which could have an operational effect in the existing situation. There appears to be a great deal of confused thinking in relation to what the Food Corporation can do. It is obviously not a policy making body. No state can abdicate its responsibility and leave policy for the state to the Corporation. At best it can become an efficient organisation carrying out in integrated manner all the various functions pertaining to the Central Government in relation to food. The setting up of the Corporation does not diminish, in any manner, the need for formulating clearly and concretely, the aims and methods of national food policy.

To sum up.

The producer of foodgrains must be offered an incentive price whose level is fixed in relation to the level of prices of competing cash crops and whose announcement is made at the appropriate time each year.

The consumer in all parts of the country must be guaranteed an equitable and fair price and also assured of reasonably adequate supply throughout the year.



It is highly desirable to achieve these ends through a basic national plan which prescribes appropriate policies and measures for each state.

If this is not found immediately possible the Central Government should make its allocations to states with reference to, at least, a national plan and in such manner as to lead State Governments adopting appropriate policies.

The Central Government should formulate immediately long term aims of its policy and the concrete steps by which it proposes to reach them.

The food policy of the deficit states in the absence of a national plan and a uniform national policy will have to be specially rigorous.

Its initial emphasis will have to be on the largest possible procurement of food grains internally. This must lead to early socialisation of the trade in the main foodgrains.

The jowar monopoly purchase scheme of Maharashtra has proved reasonably successful and should be continued next year before thinking of the more vigorous step of a compulsory levy.

Modifications suggested by the experience of the last year in the monopoly purchases scheme should be introduced immediately.

The monopoly purchases scheme should also be applied to rice in Maharashtra during the current year.

A distribution plan for the whole state should be drawn with reference to two main objectives of checking price increases and preventing hardship to the poorest strata and the backward areas.

The procurement and distribution policies should be spelt out in annual budgets with detailed break down by the areas and months and no discretion be left to local authorities and administrations in respect of the procurement or distribution policies.

To the extent supplies permit rationing should be introduced in the cities and sumptuary regulations imposed throughout the state.

The Union Government should set an example by introducing rationing and imposing sumptuary regulations in the capital city, Delhi.

In the ultimate analysis the surplus states will have to adopt the same approach to food policy as that immediately necessary for the deficit states. The aim of national policy should be to bring about the needed transition as early as possible.

## ECONOMIC ASPECTS OF IRRIGATION WATER MANAGEMENT\*

THE problems of the proper development of irrigation systems are among the most difficult and among those which have not so far been dealt with very satisfactorily in this country. The development of an irrigation system is far from being an engineering problem, in the main. We have a large array of situations in this country in which large irrigation systems are being developed. They vary from densely populated and considerably developed areas like that of Uttar Pradesh and Bihar to the semi-desert areas of Rajasthan. Whether in the one or the other, the development of an irrigation system involves basically the task of planning and creating the infra-structure required for the utilization of the added water supply in irrigated agriculture and transferring the technology and capital required for the transformation in agricultural practice. It is a total task which has to be viewed in an integrated fashion. Some of the problems of under-utilization of irrigation works that we face today have stemmed from our failure in planning and programming for the proper development of our irrigation systems. I presume that the Symposium on Irrigation Water Management will not be concerned with these problems of development and that its discussions will be in the context of an appropriately already developed irrigation system. I felt it necessary to say this by way of introduction because a number of problems of Irrigation Water Management in actual situations today arise out of inappropriate development measures in the past.

I shall now go on to draw your attention to a few aspects of irrigation water management. I shall for obvious reasons deal mainly with economic and financial aspects of the subject. I shall in doing so draw largely on the Report of the Maharashtra Irrigation Commission of 1960. This is because the most intensive study that I made of these problems was during the period of my membership of the Commission and because most of my own ideas on the subject have been incorporated in that report.

Before discussing management, there is need to be clear as to the aims of management. Unless we are fully aware of the objectives

\* Inaugural Address, Central Board of Irrigation and Power, 40th Annual Session, Symposia, New Delhi, 23-11-1967.

which management is supposed to attain or achieve it will not be possible to define properly the principles and practice of good management. It may appear to some that the question I am raising is superfluous and that the objectives of Irrigation Water Management should be obvious to all. In order to emphasise the need to define clearly the objectives, I would draw your attention to the manner in which these objectives have been changing over past decades. The Irrigation Commission of the first decade of this century paid considerable attention to the distinction between productive and protective irrigation works. In laying down criteria for undertaking irrigation works and in formulating the principles of the management of such works, this distinction played a great part. However, over the subsequent decades the distinction has almost completely lost its importance. With the steady commercialisation of agriculture, the concept of a protective irrigation work has fallen into the background and the productive aspect of irrigation works which were initially constructed entirely as protective works has progressively attained prominence. The protective concept was appropriate to a static and self-sufficient agricultural economy. In a dynamic economy it is no longer relevant and could not survive. However, the elimination of the protective concept meant at the same time a considerable change in the original design of utilisation of water and a change, inevitably in the principles of Irrigation Water Management as related to the protective systems. One has only to look at the transformation of the country-old Mutha Canals System to realise the full measure of the change. As originally designed, this system, with head-works less than 10 miles above Poona, had under command a region of nearly 40 miles below Poona. In the course of decades the transformation was such that in 1961 the entire water supply was absorbed by the growing needs of Poona city and by the intensive vegetable, fruit and sugar-cane agriculture between Poona and the headworks and for a distance of less than 10 miles below Poona. Irrigation channels for over 30 miles were left dry and the whole of this area, which is the most liable to famine and required protection most, was deprived of the water supply originally meant essentially for it. The same truncating effect was observed, because of the establishment of sugar factories, near the headworks of both the Godavari and the Pravara systems. Therefore, when considering problems of Irrigation Water Management it is important to project yourself into the future and to see what sort of requirements you are going to fulfil and how you are going to be sure that the investment made originally for given objectives is not seriously deflected from them during the course of time.

Apart from a change in objectives of Irrigation Water Management which might come about by transformation of agriculture as has occurred during the past decades, there are other problems that have to be faced in determining the aims of Irrigation Water Management. The basic conflict in this context is that between intensity of use and dispersal of benefits. There are certain regions in which this conflict may not arise because the supply of water is both plentiful and cheap, so that all areas that are under the command of a given work can fully find their needs met. In other cases, however, where conditions are not so favourable the problem has to be squarely faced. The problem in one of its aspects is met with even in the allocation of national resources for purposes of development of irrigation systems. It appears obvious to say that investment in irrigation should be so directed as to yield the maximum overall benefit; and a number of times the concept of maximum overall benefit is supposed to be identifiable with maximum production in physical terms, especially of an immediately scarce commodity like food. However, this apparently obvious statement has to face many questions. For example, how do you evaluate the physical production increase in a particular region or in the hands of particular category of persons in terms of benefits to the national economy? Here, the old dilemma of concentration and intensity versus dispersal of benefits to very much larger numbers and to many regions which is faced in all plans of development comes to the fore in a sharp manner. This is not the place to go into the pros and cons of this controversial issue. I draw your attention to them merely in order to highlight the nature of problems involved in determining the aims of Irrigation Water Management. For, the issues have to be faced not only at the national level but also at the level of the management of a single individual irrigation system.

The Maharashtra Irrigation Commission thought it necessary on this account to determine initially the basic aim of the future development and management of the various irrigation systems in the State. The Commission found that the bulk of the cultivable area in Maharashtra was destined to remain under dry farming conditions, relieved in the main only by small areas of well irrigation wherever underground resources permitted of this. At the same time it was also observed that farmers located in the irrigated areas, particularly where perennial cash crops could be grown became far more prosperous than those outside such areas and that these canal irrigated areas and their environs virtually became pockets of all-round prosperity. The Commission, therefore, recommended that in each river basin irrigation facilities should be spread over as much of the region as possible thereby permitting the development of

pockets of prosperity all along the river course. The recommendation of the Commission regarding the dispersal of irrigation benefits over the widest possible area of each river basin was thus based on a view of the total management of the water resources of the State; and the Commission warned that unless the dispersal of irrigation facilities, various aspects of which the Commission had examined in detail and framed recommendations about, was deliberately and properly planned in advance and the plan adhered to implemented fully, lopsided development would result on the new irrigation works as it had already been on the old.

It is interesting to note how with this clear definition of the basic objective the Commission was led, in the specially difficult circumstances of Maharashtra, to recommend very elaborate systems of management for full economic use of highly scarce water resources. The exploitation of underground water supply in combination with surface water has recently become recognised as an important management requirement in all parts of India. Even in regions where supply of water in canal systems is plentiful and the underground water level favourable, the exploitation of underground water supplies through tube wells etc. is expected to lead not only to a more intensive use of water over a much larger area but also to help in preventing such evils as waterlogging. The Maharashtra Commission had, however, to go much beyond treating underground water supply as merely additional or supplementary. Maharashtra has a substratum homogeneous rock of great depth which makes practically all dependable sources of underground water very much a matter of chance. At the same time it has been found that the underground water table in the command of the canals gets considerably enriched. This has been established by experience though the nature of surcharging of water underground table by seepage from canals is not fully known. The Maharashtra Irrigation Commission found it necessary, in the circumstances, to recommend the adoption, in the future, of a lift-cum-flow irrigation system in the working of canals. The basic idea was that the underground water from the enriched sub-soil in the canal command should be utilised for supplementing irrigation by flow from the canal, thus increasing total area irrigated from the limited surface water resources. After discussing several alternative suggestions put forward for working out a system for this purpose, the Commission recommended one of these; this was that canal water should be supplied to perennial crops at alternative rotations, the other rotations being taken up by wells which the irrigators are encouraged or compelled to construct. It was thought that in such an arrangement the canal will run continuously but the different distributaries will run at alternate rotations. The continu-

ous running of the canal would keep the underground water table sufficiently high throughout the period enabling well irrigation to be done.

To my knowledge the recommendations regarding the lift-cum-flow system in the area under command of canals have not yet been adopted by the Maharashtra Government. I can see that there would be difficulties in the adoption of this system and that both administrators of irrigation systems and the existing groups of beneficiaries under these might oppose such adoption. However, I feel that in the ultimate analysis, if you adopt the objectives for Irrigation Water Management accepted by the Maharashtra Irrigation Commission, there is no real alternative to the adoption of some such system for full dispersal of the benefit of water resources.

May I refer to some other aspects of Irrigation Water Management which were considered by the Maharashtra Irrigation Commission and which have economic overtones ? The first relates to the arrangements according to which water is supplied to cultivators for different crops and in different seasons. Here again it appears that some regions in India do not find it necessary to concern themselves in any detail with such problems. This may be because either the water supply is ample and adequate for lands under command throughout the year or because there is no diversity in the cropping pattern. However, I feel that in most areas such specially favourable conditions may not last for ever and that in most irrigation systems it would be necessary to evolve some detailed arrangements for supply of water. The question is likely to assume special importance when the need for raising the revenue income from irrigation systems becomes urgent. It is obvious that a schedule of water charges which has been linked to the quality of the crop raised and the time and duration of supply is likely to be more productive of revenue than a uniform rate over the whole year. A cultivator who obtains water supply for a more costly and more intensively cultivated crop is in a position to and would be willing to pay a correspondingly higher price for the supply of water for raising the crop. In the same way, water supplied at a season when there is general scarcity of the commodity could be made to fetch a higher price. It is obvious that elaborating or refining the system of charging in this manner would mean evolving a detailed arrangement for the supply of water to different crops at different times. This involves obviously greater control over the distribution of water and impliedly also over the operations of the cultivator.

This elaboration may be necessary from other points of view also which have significance in Irrigation Water Management. Within a system in which the total supply of water is much less than the

potential demand from irrigators under command, Irrigation Water Management faces a number of problems. The problem of distributing water so as to benefit as large numbers as possible has been referred to above. However, there are other problems such as that of keeping a balance between perennial crops consuming water on a large scale and the other largely seasonal crops, the need for controlling areas under certain crops for preventing water-logging etc., the need to encourage utilization of water during periods when the supply is specially plentiful and, in particular situations, the need to encourage the adoption of social crop patterns such as those in which food-grains predominate.

When within an irrigation system water supply is apt to vary between one year and another Irrigation Water Management is faced with the additional problem of a proper balance between long-term and short-term contracts. The need to encourage cultivators to make investments in costly, capital-intensive perennial crops so as to obtain maximum production and financial returns has to be balanced against the possibility of a shortfall in supply in particular years. In Maharashtra all these sets of conditions have led to the elaboration of the Block System, — in the initial development of which that eminent engineer-statesman, Shri M. Vishweshwarya, played a great part. I feel that even though as at present, in many areas, such elaborations and refinements may appear superfluous, the need to adopt them in some measure would arise everywhere in time.

At the same time, an elaborate system of management through blocks may have the defect of rigidifying the crop pattern of irrigators, especially of those under long-term agreement for supply of water. It is highly desirable that such rigidity should be avoided. This can be done to some extent by not making the long-term contract too long. However, even within such a period as the six-year period, flexibility should be available and it would, therefore, be necessary to define the crop patterns of Blocks rather in terms of generalised categories of crop than in terms of individual crops. The Maharashtra Irrigation Commission made a number of specific recommendations in this direction. I am not sure that they have been given effect to. I am particularly reminded of this problem at this juncture and venture to bring it to the notice of the Symposium because I have lately heard complaints from some progressive farmers in Maharashtra that their efforts at experimenting with a number of combinations of crops during a year, made possible by the recent emergence of the hybrid varieties, have been obstructed by operation of the present Block system.

Finally, I may refer to one aspect of Irrigation Water Management which has socio-political as well as economic overtones. This is

the problem of the local management of the distribution of water and of the repairs and maintenance of distribution channels. In this context I shall permit myself to indulge in a generalisation. The transition from an authoritarian colonial regime to a Federal Democratic one involves large changes in administrative practice and in the attitude of the administrators, and these changes we have been slow to recognise and slower to put into practice. I am convinced that in the ultimate analysis efficiency and appropriate local administration require active participation of the local community, whether the administration pertains to education or irrigation or to forest or health. In all contexts it has been found that of recent years the efficiency and authority of the local government officials have been undermined but local responsibility has not increased correspondingly. That local administration can be both efficient and honest I have no doubt at all. While I was Chairman of a sugar co-operative factory, our factory administration was able to obtain from the State Government the work, on an agency basis, of distributing water during summer months not only to members of our co-operative but also to all irrigators within the area of the villages falling within the jurisdiction of the co-operative. We were able to show that administration by the co-operative sugar factory of this scheme of distribution raised fewer complaints than formerly and was able to distribute a given supply of water over a larger area. I am free to confess that a later Chairman of the same factory told me of strains that could arise in the operation of the factory itself through taking on such burden of Irrigation Management. I cite my experience, therefore, not as suggesting a particular direction in which devolution of management should come about but merely to point to the fact that devolution can be successfully experimented with. I realise that conditions in our country vary greatly from region to region and that even within an area the changing human factor may lead to differing levels of efficiency of management. At the same time, I am convinced that the ultimate solution to our problems of local management can be found only by persistently experimenting with local devolution in all contexts in which it appears to have the least chance of success.

To sum up, it is seen that irrigation water management has to take into consideration a large number of socio-economic objectives such as a proper distribution of benefits, the conservation and optimum use of water and land resources, obtaining the maximum financial return from the irrigation systems, encouraging the adoption of the most profitable crop patterns compatible with conservation aims and making for the participation of the local community in management.



## THE SALARIES OF PUBLIC OFFICIALS IN INDIA†

### *Preface\**

THE Donoughmore Special Commission on the Ceylon Constitution (1928) record in their report the following significant observations with regard to the salaries position in that island.

“No one who examines the detailed financial statements of the Ceylon Government can fail to be impressed by the high proportion of expenditure which is devoted to the payment of personal emoluments of public officers. Our enquiries revealed that the cost of the personnel in Ceylon Services had of late years risen to such a degree as to constitute a serious embarrassment. We have already observed that Ceylon has now reached a critical state in its history, and is faced with vast social and economic problems which call for prompt and energetic handling. It is of the utmost importance therefore that no obstacle should be placed in the way of the Government in devoting to the solution of these problems the maximum of the funds it can make available. Yet we found that owing to the high cost of personal emoluments the Government was reluctant to propose additions of staff, however, urgently needed for the development of their policy, and that improvements and extensions of important public services which were characterised as urgently required were liable to be curtailed and even deferred.

This unhealthy situation is primarily due to the absence of any distinction between the salaries payable to Europeans and those payable to the Ceylonese. There was doubtless much to be said against any such distinction in the past, when the great majority of superior posts in the public services were held by Europeans.....But the pendulum is now swinging in the opposite direction and we must look forward to a time, in the not distant future, when the Ceylonese will be found organising, directing and staffing their own public services with the assistance of a comparatively small number of European officers...It would be contrary to the public interest and might indeed be fatal to the attainment of this ideal, if the Ceylonese public servants were to continue during this process of development to be

† Gokhale Institute of Politics and Economics Publication No. 1, (now out of print) 1931.

\* Dated July 29, 1931.

paid at rates which are not only wholly disproportionate to local requirements but which constitute a severe strain on their country's resources and give a false emphasis to the national budget."

All this may equally truly have been said of India. Indeed, in so far as India is a country poorer, on the whole, than Ceylon, its social and economic problems more complex and the Indian Civil Service scales of pay higher than those of the Ceylon Civil Service the whole of the passage quoted may be said to apply to India with even greater force than to Ceylon. Again the "swing in the pendulum" referred to above has already gone far with us and we may expect in the near future a cessation of European recruitment. It is thus essential, and also fortunately possible, for us to envisage a system of manning and remunerating the public services of India with an eye exclusively to the internal conditions of the country. This involves an entire re-assessment of the salaries of public officers in India and in the following pages an attempt is made to determine the basis of such reassessment. I have deliberately not concerned myself with the past and its controversies, except in so far as a historical review helps to a clearer understanding of the present position.

The future of India is intimately bound up with the extension on a very large scale of national social services in every direction and a radical salary reform is a condition precedent to such an extension. It is, however, not only on fiscal grounds that a salary reform may be pressed for. I believe that it will have highly beneficial and far reaching effects on many aspects of our national life. It will remove very largely the existing false emphasis on government employment, it will help to correct the many wrong notions regarding standards of living current among our educated classes, it may induce in the mind of the official class a saner outlook towards the people at large, it will narrow considerably the gulf between the educated middle classes who are the natural leaders of our society and the large mass of agriculturists and labourers and last but not least, it will considerably reduce the volume of middle class unemployment.

This problem of salary reform has not always been given the attention it deserves in recent times in India. The circumstances under which the Lee Commission was appointed made it impossible to expect from that body an examination of this question from the point of view of the Indian tax-payer. But even the treatment accorded to it in the report of the Indian Statutory Commission is in sharp contrast with the prominence given to it in the Donoughmore Commission's report. In the report proper of the Simon Commission no reference is made to this question, not even in the chapter dealing with the "Future of the Services." The only discussion of it is to be found in Mr. (now Sir Walter) Layton's report in a short paragraph

written in connection with central expenditure. Mr. Layton admits that the cost of administration in India is very high owing to the standard of salaries in the upper grades, but goes on to assert dogmatically, "So long as British personnel is still required these standards must continue." How inadequate was Mr. Layton's appreciation of the total effect of the high standard of salaries on Indian finances is shown by the nature of the remedy he suggests. He writes, "the only way to meet the difficulty is to lower standard salaries throughout the service, but to increase the overseas allowance to British members." Indeed, Mr. Layton does not seem to have thought the problem important enough to merit much attention. For, though in the paragraph indicated he briefly dismisses the question by saying that it, "however, affects the provincial budgets much more than the central budget," we vainly look for a consideration of the problem in the section devoted to provincial budgets.

Though Royal Commissions have ignored the problem, public opinion has been much exercised about it. All champions of economy have advocated reductions in salaries. But even the numerous Retrenchment Committees have not considered this question with the care it deserves. Perhaps it is but natural that this should be so. The Retrenchment Committees by their very nature are concerned rather with immediate economies than far-reaching reforms. And usually their suggestions take the form of some slight modifications of existing scales based on vague and indistinct notions. It is necessary that the problem of salary reform be probed more deeply than has usually been done. This short study of it is published in the hope that it may contribute somewhat towards clarifying current notions and help to indicate a proper approach to the subject.

### *Introduction*

Various circumstances have combined to make the question of salaries of extreme importance in India to-day. The two most notable of these are : (i) the financial situation in which the Imperial and the Provincial Governments find themselves and (ii) the impending transfer of control over services to the Indian Government and Indians themselves, with the probable cessation of all foreign recruitment. Owing to the present universal depression the financial situation of all Governments is desperate enough. But what makes it seem particularly hopeless in India is that on the eve of Swaraj, when the rightful duties of a national Government will have to be shouldered by us, the large expansion of expenditure thus involved can nowhere be seen to be offset by a corresponding possible expansion of revenues. In this predicament the reduction of salaries is an

obvious measure of economy and an attempt is made in what follows to indicate the extent to which such a reduction may reasonably be made. Again, the cessation of English recruitment removes the major disturbing factor in the mutual adjustment of the different grades of pay and it is now possible for us to consider what should be the proper relation between these different grades when they are all recruited from amongst Indians themselves. I have divided the consideration of the question into two parts. In the first part is contained a survey of the present position regarding salaries paid to Indians and how it has been reached and in the second an attempt is made to determine the independent criteria on which the new scales of salaries can be built up.

## PART I

It is not necessary to go further back than the middle of the last century for a survey of the evolution of civil service salaries in India. We may well start this survey with the report of Mr. Ricketts of the Bengal Civil Service who was appointed in 1856 by Government to be Commissioner for the revision of civil salaries and establishments throughout India. This report was presented in 1858 and the Government of India in their despatch reviewing the report generally agree with the principles enunciated therein. As there were at that time no "natives" on the Bench of any Supreme or Chief Court, or in the Legislative Council or in the Civil Service the principles which Mr. Ricketts laid down concerned chiefly the question of the employment of Europeans in India. In determining their salaries Mr. Ricketts started with the highest posts within his purview and adjusted the other salaries to the scale he had fixed for these. The highest officers were the "Sudder Court" judges and as the Government of India remark Mr. Ricketts's "best consideration has been devoted to the subject. All his subsequent recommendations have reference to the salaries suggested for the Sudder judges." After being at much pains to collect opinions from all quarters as to the general principles on which salaries ought to be regulated, Mr. Ricketts decided that it would be fair and proper to calculate the salaries of the Sudder Judges partly with reference to the salaries allowed to the Members of the Legislative Council, partly with a view to provide an object of ambition to the Judges who may be selected for the charge of the English or Executive Departments and partly with reference to the elements which seem principally to have been considered in England, namely, "the condition of the country or colony to which the Judge was to be appointed, the income

which would enable him to maintain a respectable position among those with whom he would have to associate, the attractions or disadvantages occasioned by climate, society, distance, necessary expenses and the many other circumstances on which the desirableness or unattractiveness of a place depends." In these views the Government of India generally concurred.

The finances of India which have always acted as some slight check to the extravagance in the salaries paid to British officers in India had been mainly responsible for the appointment of Mr. Ricketts. The state of finances had also earlier necessitated some reduction in the salaries of the Commander-in-Chief and the members of the Council of India. The statute of 1853 had fixed the salary of each member of the Supreme Council at Rs. 80,000 p. a. and the salary of each member of the Legislative Council at Rs. 50,000 p. a. The Government guided by this standard had already ruled generally that no salary in India shall exceed Rs. 50,000. Taking all these considerations into account Mr. Ricketts recommended that the salary of the Chief Judge of the Sudder Court at Calcutta should be fixed at Rs. 48,000. We are not concerned here with the details of Mr. Ricketts's recommendations or of the variations made in them before they were accepted. We desire merely to indicate the principles on which it was generally agreed at this time that the salaries of Civil officers in India should be based.

It has already been noticed above that in 1858 no Indian was employed in the higher ranks of officials in India. Yet in considering the general question of the "Uncovenanted Services" Mr. Ricketts did theoretically consider the question of the salaries of Indian officials. Mr. Ricketts's views on this question were certainly, for his times, extremely liberal. He advocated the throwing open of a considerable number of higher posts to native recruitment. He was also emphatically of opinion that no difference should be made between the emoluments of Europeans and Indians. And he was evidently prepared to accept the full logical consequences of his position. For, he realised that when there was a sufficient number of Indians fitted to hold the higher offices the standard of remuneration should steadily fall. "There will then be less necessity for importing educated Europeans. The public service will be provided for without such resort to the expensive class as is now indispensable." He, therefore, recommended that the salaries of such offices as may be thrown open should be fixed with reference to the competition of qualified natives. The whole discussion was, however, highly unreal at the time, as Mr. Ricketts himself admitted, "though the office may be thrown open, I expect that it will be many years before a Native shall hold it."

Conditions in 1858 were simple enough. The salaries question was really a question of European salaries and the two main governing conditions were on the one hand the finances of India which placed some check on wild extravagance and on the other the necessity of inducing the right kind of Englishmen to come out to India. During the next thirty years the question of the employment of the natives of India assumed considerable importance. This reform was advocated on grounds both financial and political and the chief object of the Public Services Commission, presided over by Sir Charles Aitchison, appointed in 1886 was "to devise a scheme which may reasonably be hoped to possess the necessary elements of finality and to do full justice to the claims of the Natives of India to higher and more extensive employment in the public service." It should be noted that though Indians had already at this time begun to compete at the Indian Civil Service Examination in London the recruitment of Indians through this channel had been very slow and there were in 1887 only 11 Indians in the I. C. S. The other method of recruiting Indians for the higher offices was nomination to the Statutory Service formed since 1870. The Commission, however, found that the Statutory system had failed to secure properly qualified men. As regards the conditions of pay, promotions etc. suitable to natives of India appointed under the Statutory rules, the Commission was clearly of opinion that the "general conditions of service accorded to officers of the Covenanted Civil Service, who are recruited in England, do not appear to be in any way suitable to the Native of India obtaining office under the Statutory rules or otherwise appointed in India. These conditions were framed to meet the circumstances and requirements of an agency which it is considered necessary to import from England and seem to the Commission to be wholly inapplicable to such an agency as may be recruited in India." They concluded, "to apply to the latter agency the exceptional conditions found to be necessary for special reasons in the case of the former would appear to involve a charge upon public funds which is unnecessary and cannot be justified." Under the circumstances the Commission thought that the best way in which a higher and more extensive employment of the natives of India could be provided was by reducing the strength of the Covenanted Civil Service and transferring a corresponding number of appointments to a local service to be separately recruited in each province of India. The Covenanted Civil Service was to be reduced to a "crops d'élite" -a recommendation very similar to the suggestion made by Sir James Caird on financial grounds in 1880. Though it was generally felt that the one service would be mainly English and the other mainly Native it was laid

down as an essential condition of the scheme that "the conditions of each service respectively be the same for all who enter it to whatever nationality they may belong." But even though this principle was definitely laid down it was clearly recognized that the Imperial scale of pay was dictated by peculiar conditions and that this should not be allowed to influence the scales of pay of the Provincial Service.

The grades of pay in the new Provincial Service which would contain the best element amongst natives should be fixed, the Commission was strongly of opinion, "on independent grounds" and should bear "no relative proportion to those of the Imperial Service." "The simple principle which the Commission would adopt is to adjust the conditions of the Provincial Service by the consideration of the terms which are necessary to secure locally in India the desired qualifications." The Commission did not approve of the rule by which Natives of India appointed to a post were paid two-thirds of the salary fixed for Europeans holding a similar post. The Commission did not consider it within the scope of its terms of reference to discuss the details of the rates of pay etc., to be attached to the offices in the Provincial Service but it observed generally regarding this question that where the present Uncovenanted Service is graded, there would probably be no necessity for more than an addition in some cases to the higher grades, and in other cases the creation of grades above the present scale so as to absorb the higher appointments taken over from the Imperial Service. It is worthy of note that the Aitchison Commission recommended the term "provincial" with a view to avoid the invidious distinction complained of in the use of the term "uncovenanted." The Commission further recommended, "that as far as possible the members of the Imperial and Provincial Services should be put on a footing of social equality, and that when they occupy similar offices, they should be graded together in the official precedence list."

The recommendations of this Commission met with a curious fate. Though the Secretary of State generally approved of the recommendations he refused to take the most important step necessary to give proper effect to them, that of removing certain appointments from the Imperial Service schedule and incorporating them into the schedule of the Provincial Service, with the result that the pace of Indianisation became excessively slow and even in 1920 the full one-sixth of the total posts had not been transferred. This was due, as pointed out by Sir R. Craddock in a minute to the Lee Commission Report, to (i) the Local Governments "not bearing the matter sufficiently in mind" and (ii) the fact that the recruitment to the Indian Civil Service was based not upon 5/6th of the superior posts but upon the total. This would not have happened if the recommendations of the

Commission regarding the transferring of one-sixth of the posts from the Imperial Service schedule had been accepted. Further, the expectations of the Commission that the new Provincial Service would hold an equality of status and social position with the Imperial Service were, on account of various factors not fulfilled and the Commission thus failed to provide a solution of the questions of native employment in India which possessed any reasonable element of finality in it.

The next Royal Commission on public services in India appointed in 1912 had presented to it a problem the circumstances of which had changed considerably. The solutions they proposed were, therefore, also correspondingly different. They found that the solution of the problem of employment of natives suggested by the Aitchison Commission had failed. Three grades of services, the Imperial, the Provincial and the Subordinate had been brought into being but the expectation that the status of the Provincial and Imperial officers would be reckoned the same and that Indians would be satisfied with the posts thrown open to the Provincial Service were both unfulfilled. The Islington Commission therefore, found it necessary to recommend the reservation of a certain proportion — which varied from service to service — of posts in the Imperial Services to Indians. Speaking, generally, in all those Services where they contemplated that the recruitment would be made partly in England and partly in India they indicated approximately the representation which they wished to give to non-Europeans. These proportions varied. They were the least in the Indian Civil and Police Services. While the Commission recommended an almost entire Indianisation of the Indian Finance Service; the recommendation regarding the policy of Indianisation raised naturally in an acute form the problem of salaries. The 1886-87 Commission could think in terms purely of English conditions with regard to the salary of Imperial Services and in terms of Indian conditions only with regard to Provincial Service pays. But such a clear cut distinction no longer remained and the question had to be squarely faced as to whether any differentiation could be made between the salaries of European and Indian employees in a service.

The third chapter of the report of the Islington Commission is wholly devoted to this subject and deserves careful consideration. As regards the conditions that existed when they reported they found that the practice varied considerably. In many cases there was a differentiation made between the salaries paid to the Indian and to the European. In some services Indians appointed in England received a salary equal to Europeans while Indians appointed in India were paid at a lower rate. In the Indian Civil and the Indian Medical Ser-



vices "a position of equality had been reached almost insensibly". The Commission confronted with this problem sought to apply to it the general principle that Government "should pay so much and so much only to their employees as is necessary to obtain recruits of the right stamp and maintain them in such a degree of comfort and dignity as will shield them from temptation and keep them efficient for the term of their service." But it can hardly be said that this principle was applied with any consistency by them. They point at the outset to the two different schools of thought on this subject, one advocated equal pay for all, the other favoured differentiation. Equal pay they admit would remove the suspicion of racial favouritism but on the other hand they urge that "to set in India for the Public Services a standard of remuneration which is in excess of what is required to obtain suitable Indian officers is to impose for all time on the country a burden which she ought not to bear." Not only is the question of direct cost involved but further, "If young men, who are statutory natives of India are paid at European rates owing to the accident of their electing for a service in which a certain number of Europeans are required, then similar young men, who elect for other services, like the Post Office, for which Europeans are not imported, will need to be paid similarly, if recruits of the same class are to be obtained as at present. The circle of financial obligation will thus go on widening and will finally touch the private market, particularly in the engineering and the educational fields." Thus in applying the general principle they adopted, they had to bear in mind these two considerations of removing suspicion of inequality and the position of the finances of the country. The Islington Commission proposed to get over this difficulty in the first place by fixing the standard of salaries of those services whose normal requirements they thought would be eventually met in India at rates calculated to obtain the required recruits in India, suggesting higher rates for officers imported from Europe for the transitional period and for the other services by drawing up separate scales for Europeans and Indians. But these principles were not applied consistently. Some extremely important exceptions were made. The equality which already prevailed in the Indian Civil and the Indian Medical Services was retained and a special treatment of the superior educational service was recommended as it was felt that the *reasons of sentiment* which suggest equality of payment were stronger in the case of administrative posts generally and in the case of the educational service in particular. We shall see how this exception affected the whole situation later on. The other measure suggested by the Commission was that a common list for all officers should be drawn up with seniority dependent on the date of appointment without reference to salary. For, they felt that

the existing grievances were due more to differences of dignity than of pay. [It is curious that this recommendation should have been made in spite of the experience afforded by the fate of the Aitchison Commission's recommendation regarding the status of the Provincial Service.] Another important recommendation made by the Commission on this behalf was that Indians recruited in England should not be treated otherwise than those recruited in India. "Such a policy", they opined, "must tend to retard the development of Indian education." But even this conviction of theirs did not affect the case of the I.C.S. and the I.M.S. For, the Indian members of the Commission urged that public opinion in India attached great importance to securing absolute equality between Indians and Europeans who had been through the same educational course; and further as the number of persons concerned was not large no departure from the existing practice was recommended.

Regarding the specific recommendations of a scale of salaries suited to Indians the Islington Commission admitted that there was no reliable guide in fixing it in the case of India. In the United Kingdom "where the ordinary well-educated individual in search of a career has a wide choice of alternative employment, their remuneration can safely be taken as a standard above which salaries in India must certainly be fixed." "But in India the competitive element of the problem is much less salient." "Here with the two exceptions of law and medicine, there is no calling the average earnings of which may be taken as an indication of what the Government ought to pay in order to obtain service of the required type. Instead of being one of a number of rival competitors the Government of India is practically in the position of a monopolist employer." The Commission, therefore, proceeded solely on "principles governed by the ideal of cheapness." The scales they proposed ranged for the ordinary graduate class, from Rs. 250 to 500 p.m.; while for services requiring "higher initial qualifications" they proposed a scale as from Rs. 300 to 1050 p.m. It is not clear whether the Commission had undertaken any detailed or systematic enquiries before determining these scales. They seem merely to be adaptations of the existing Provincial Service scales.

The report of the Islington Commission was presented a year after the War had been in progress and it was not till the beginning of 1917 that it was even published. In the meanwhile circumstances had changed a great deal. Some decisions especially regarding the increase in allowances and salaries were taken in 1919-20 and new scales sanctioned. But the services continued to memorialize for higher salaries and politicians agitated incessantly for increasing the pace of Indianisation. In 1923 a new commission was appointed which

investigated anew this question. The report of the Lee Commission is a comparatively short document which further labours under this handicap, that no part of the evidence on which the Commission rested its findings is available to the public.

The problem of Indianisation had, because of the new Reforms introduced in the structure of Indian constitution, assumed an entirely different aspect. In the provinces a number of departments had been transferred to the control of ministers responsible to the legislatures and a new distinction had now to be made as between the services in the reserved and the transferred departments. It was obvious that officers in the transferred departments should not continue to be recruited and controlled by the Secretary of State so that the ministers may have full control over them. The Lee Commission, therefore, recommended that no further recruitment should be made to All-India services as such, operating in the transferred field; this work of recruitment being in future transferred to the Local Governments. This meant that these services would in due course be completely Provincialised. This was with regard to the services serving within the sphere of Provincial Governments. With regard to the central services some were to be transferred entirely to the control of the Government of India while in others recruitment by the Secretary of State was still to continue. The All-India services employed in reserved fields, viz., the Indian Civil, Police, Engineering and Forest services, (and the I.M.S. which was specially treated) it was recommended, should continue to be recruited and controlled by the Secretary of State. For the services for which recruitment by the Secretary of State was to cease it meant practically a cessation of non-Indian recruitment. In the All-India Services, however, increased Indianisation was to be obtained by the adoption of certain definite ratios of future recruitment of Indians which were recommended by the Commission.

When the Commission came to tackle the problem of salaries it took a line radically different from that of the Islington commission, in the case of the salaries of both the European and Indian members of the services. The Islington Commission in the paragraph entitled "Principles on which salaries should be calculated" note in the first instance the rise in prices that had taken place in India since 1905 and commenting on the difficulty of unravelling the extent of adjustment effected by various increases in pay and allowance conceded to various services from time to time, write as follows. "Nor is it necessary that such calculations should be made, as they depend ultimately on the assumption that salaries should be kept at the same level for all time irrespective of the operations of the law of supply and demand. Such a position is untenable. The only safe criterion is that

Government should pay so much and so much only to their employees as is necessary to obtain recruits of the right stamp, and to maintain them in such a degree of comfort and dignity as will shield them from temptation and keep them efficient for their term of service. Whilst, therefore, we have noted the rise in prices that has taken place, we have not based on this any general recommendation." The Lee Commission on the other hand quote with approval the recommendation in the Montague-Chelmsford Report that "the present opportunity should be taken to do something towards restoring the real pay of the existing services to the level which proved attractive twenty years ago," and base their chief argument for a considerable increase in pays and allowances on the statistical argument of the rise in the index number of prices. (It should be noted in parenthesis that this argument was not held valid even in the case of post-war bonuses granted to British Civil Servants. For, these bonuses gave a relief substantially in accordance with the rise in the index number of prices only to the lowest strata). It is especially with regard to this question of salaries that the entire lack of evidence and other material makes it impossible to judge of the findings of the Lee Commission. We are not concerned here with the pay of European members of the services. But when we came to consider the Commission's decision regarding the pay of Indians in the All-India services this lack of evidence causes some difficulty. For, their finding in this matter is opposed to that of the Islington Commission. While the earlier Commission was driven to concede equality of pay in the I.C.S. and in the I.M.S. it did so only as an unavoidable exception. The Lee Commission admitted that economy was one of the main justifications for "Indianisation." It pointed out, on the other hand, that Indian members of the services went so far as to claim an increase in their salaries. (It would be highly interesting if we could examine any figures or budgets that may have been presented to support this case). The Commission viewing these "divided counsels" (one wonders if they expected the Indian members of the services to clamour for a reduction of their salaries) came to the conclusion "that it would be inadvisable to reduce the basic pay of the services." The principle of equality was thus definitely accepted except that the overseas pays, the remittance privileges and the passage allowances were benefits to which members of the services of Asiatic domicile were not entitled.

We have thus reviewed the course of policy regarding the salaries of higher services in India over a pretty long period. In the early days with a fairly high rate of European mortality and with the considerable hardships that were the inevitable accompaniments of a stay in India the salaries were naturally extremely high. The emoluments of the Covenanted Services in these days were according to Lord Corn-

wallis so fixed that "with proper economy they may be enabled to return to Europe *with a competency after a moderate period of service.*" Everybody is acquainted with Thackeray's nabobs and the latter half of the 18th century and the first half of the 19th century were no doubt the palmy days of the English servants of India. The statute of 1853 first put a limit to the extravagance of the higher salaries and Mr. Ricketts's efforts later on systematised them as a whole. Till 1886 however, this was a problem of European salaries only. Heretofore, the salaries of the Natives were kept entirely apart from those of the higher services. The lower scales were framed to a large extent according to the availability of suitably trained Indians. No doubt, even in these times the scales were comparatively high but they were not at all commensurate with the salaries paid to the Europeans and before 1885 only a few Indians had gained admittance to the higher services.

The recommendations of the Aitchison Commission were put forward with a view to creating two independent sets of scales of pay, one for the Europeans, the other for the Indians; but these recommendations as indicated above, failed in their purpose. And when the Islington Commission came to review the situation it had already become highly complicated. For, there was already a considerable number of Indians in the higher services getting equal pay with the Europeans and the expectations of pay of the superior Indian officers and their standards of living were fast rising; though curiously enough the supply of qualified Indians had very largely increased in the meantime. The Islington Commission were convinced of the impropriety of the principle of giving the same pay to Indians and Europeans alike. But they did not succeed in strictly working their conviction out in their detailed recommendations. They allowed equality to persist in the Indian Civil and Medical Services and newly recommended its introduction in the Educational Service. They thus set up in the three most important services a standard of pay for Indian recruits which was bound to affect every other service. It is also plain that the Imperial Service pays affected the height at which they themselves pitched the remuneration of the Finance Service. The years after the publication of the Islington Commission Report have seen an accentuation of all the evils of this artificially high payment of Indians. During the post-war period there has been a rapid Indianisation of all sorts of services and a rapid development of new activities, especially, educational in India. There has been also witnessed a much greater rush of Indian students to England largely because of the Civil Service examination and because English degrees have counted for much in getting the bigger jobs in various departments and services in India. And all the evil consequences which the Islington Commission had foreshadowed of the different-

iation in payment of Indians recruited in India and in England on Indian Universities have naturally followed. The Lee Commission would not recommend reducing the basic pay of the All-India Services while recommending a very considerable increase in the rate of Indianisation. Thus what could be treated as "exceptional and insignificant" by the Islington Commission became a major factor in the determination of rates of pay and conceptions of standards of living for the Indian middle classes. Recruitment to the Civil, Police, the Engineering, Forest and other services such as Railways etc., takes place on such a large scale nowadays that salaries everywhere even in the private market such as Port Trusts, Municipalities, Universities or the Native States have to be fixed and have all been fixed with relation to these Imperial Service pays. The Imperial Service pays which are fixed so high as to be able to attract the best type of British University recruit from his home five thousand miles away are thus the controlling factor in the Indian market. This has obviously no relation to Indian conditions and entirely flouts the principle of demand and supply on which the Islington Commission lays so much stress and to which even the Lee Commission pays lip-service. How this continued inflated payment has affected our conceptions is notoriously exemplified in the evidence of the Indian members of the Civil Service before the Lee Commission. Not only does this affect a single class but it has its effects throughout the scales. For, the remuneration of the Provincial Services, their allowances and even those of the Subordinate Services are necessarily affected by the inflated Imperial pays.

It is interesting on this point to summarize the opinions of some of the Provincial Retrenchment Committees appointed by several provincial Governments in the period of financial stringency immediately following the introduction of the reforms. The report of the Bombay Retrenchment Committee (1923) begins by pointing out that the general organisation of a cadre constitutes a commitment the consequences of which extend far into the future "the vested interests so created may absolutely preclude any remedy for many years even if the step taken is found to be a false one and the financial effect of any such decision is, therefore cumulative." Writing further on, about the Imperial Services they note as follows. "The fact that the Imperial Services are now to a very large extent recruited in India has in our opinion destroyed the chief reason for differential treatment so far as Indians are concerned. So far as we can observe the Indian recruits so obtained do not, as a class, possess any very marked superiority of qualifications as compared with those recruited into the Provincial Services on Indian rates of pay. In dealing with the Educational Department we had occasion to notice that a number of

officers have been transferred from the Provincial to the Indian Educational Service apparently with no other object than to secure the necessary percentage of Indian recruitment in the latter. We desire to record our emphatic conviction that if Indianisation merely means the substitution of very highly paid Indian Imperial officers for Provincial officers it does more harm than good, since an entirely false standard of pay is set up for Indian officers which will render the future administration of the country most unnecessarily expensive. We see some evidence of this inflation in the revised rates of pay which have recently been sanctioned for the Provincial Services themselves." The Committee, therefore, conclude "In our opinion the only basis of recruitment for Indians should in future be Provincial." Indianisation of services must mean provincialisation and "instead of perpetuating an arrangement which involves a meaningless distinction between the pay of Indians of the same qualifications a commencement should be made in building up in this manner real Indian Services under the full control of the Legislative Councils and on the most economical lines." "We would add that even where existing facilities in India do not provide the means of obtaining the training required for certain posts in the Imperial Cadres, we see no reason why the fact that a recruit has undergone a few years' training in Europe should affect his pay during the whole of his service. If European training is essentially necessary it would be far cheaper to pay the actual expenses involved of a Provincial officer to obtain that training wherever available." This Committee also took evidence with regard to what were the suitable rates of pay for Indians but the amount of divergence of opinion revealed by the answers clearly convinced them that not very much thought had hitherto been given to the matter from this point of view. They then proceed to frame their own scales of pay but do not while doing this explain how they have arrived at these scales. The highest pay for any individual office they allow is Rs. 2,000 p. m. for Commissioners or Secretaries to Government.

The Central Provinces Retrenchment Committee (1922) while making similar remarks regarding the necessity of Provincialisation of all services observe incidentally that "the further result of the present system has been that the pay of the Provincial services also has been put rather unnecessarily high in order to avoid too great a difference between the pay of Indian officers of an All-India Service and that of officers of a Provincial Service." They propose, therefore, in addition to the substitution of provincialisation for Indianisation, some slight revision of the Provincial Service pay scales. The main recommendation of the C. P. Committee in this behalf is that no Indian should henceforth be recruited for the All-India services and

all Indian recruitment should be in the Provincial Services only. The C. P. Committee formulate definite proposals regarding pays of posts and grades without giving any reasons therefor; and curiously enough the highest individual pay they recommend, that for the Divisional Commissioner, mounts up as high as Rs. 2,500 p. m. There are many minutes of dissent on particular points of pay etc., and it is interesting to note that in one minute it is frankly conceded that a particular figure recommended is due to the salaries paid to the Indian Civil Service. "If the scale of pay paid to the whole cadre is reduced, it would be possible to reduce the salaries attached to these posts."

The Bengal Retrenchment Committee follow much the same line of thought as the two mentioned above but its specific recommendations in certain respects go even further. It is emphatically of opinion that Indianisation to the extent of its advance should proceed on Provincial rather than on All-India lines. It is of opinion that much harm has already resulted from the present system of payment. "The recruitment of Indians to the All-India services has created an unnecessarily high standard of remunerations in the Provincial and Subordinate services and has led in some instances to the promotion of Indians from a Provincial to an Imperial Service without any increase of duties or responsibilities. We consider that the recruitment of Indians on the present terms to the All-India service should cease, and that such Indianisation as may be determined on should be made from the sole stand-point of provincial conditions." The Committee also definitely recommend that in case Indians still continue to be recruited to All-India Services their pay should be two-thirds only of the pay of European incumbents and further propose a general reduction in the Provincial Service pays which had been revised in 1920. They say, "the evidence we have received is wholeheartedly in favour of a reduction of pay and the general feeling is that unnecessary generosity was shown when the revisions were made." The reductions proposed vary from 5 per cent in the scale Rs. 250-500 p. m. to 33½ per cent for officers drawing more than Rs. 2,000 p. m. The highest office falling within the purview of the Bengal Committee was that of the District Judge and the salary they recommend for this post is Rs. 1,500 p. m., the same as that recommended by the C. P. Committee for the post.

No substantial relief to the Indian finances, however, accrued as a result of the deliberations of the retrenchment committees or of the provincialisation of some services. For, in the post-reforms period the increasing recruitment of Indians in the Imperial services continued to exercise a powerful influence on the provincial scales; so that the mere provincialisations of a service by itself made no consi-



derable economy possible. It may be enough to illustrate this by a quotation from a speech by Sir A. P. Patro before the services sub-committee of the Round Table Conference. "The difficulty with regard to the provincialisation of services is that in comparison with the All-India services the scales for the Provinces have had to be fixed, not altogether equal to that of the All-India Services, but in a certain approximation thereto. In Madras we have provincialised the Agricultural Service, dispensing with the All-India basis, but there was such an amount of protest from the people concerned, that their emoluments ought not to be cut down or their conditions worsened, that it has been necessary to make two classes, called the A and the B class. The A class has been allotted a scale very little below—a few percent below—that of the All-India Services. It has also claimed special privileges. The members of the B class have also claimed a higher ratio in proportion of what they were getting. Therefore, by dispensing with the All India basis and provincialising the service, being desirous of getting the best men possible for the Provincial Service, we have not been able to effect any great saving."

## PART II

What appears clearly from the above account of the evolution of Indian salaries is that they have ceased to bear or almost never bore any clear relation to either what Indian conditions necessitate or what Indian finances permit. It is possible that the earliest of the Provincial Service scales were really so framed as just to attract the new educated classes then coming into being to Government service and that they were not unnecessarily high.<sup>1</sup> But evidently this has not been the case for many decades past. Even with a strictly limited number of Indians receiving English education, and while only the provincial posts were open to them the Provincial scales of pay were found to be attractive enough to obtain the best type of Indian recruit. The conditions in these respects have, however, been fast changing. The spread of education—especially of collegiate education—has been remarkable in modern times and the growth of the numbers in classes from whom Government officials in India are usually recruited has been tremendous. This has been followed, however, not by a diminution of the emoluments but rather by a very considerable growth both in the scales of pay and in the number of prizes open to Indians.

This has continuously affected the market, both Government and private, in other than Imperial Services. The payment of the Imperial

<sup>1</sup> See, however, on this point the account of Sir C. Elliott's views detailed below.

services has set the standard which has had to be followed in all other services and employments. There is not, as has been often pointed, any considerable difference between the average attainments of persons who are fortunate enough to obtain Imperial Service posts and those who enter the Provincial Services. There has never been, further, in the case of the Indian Civil Service recruitment in India any of that type of monopoly enjoyed by any special type of education as is enjoyed by Oxford and Cambridge in the case of the recruitment to the British Civil Service. The successful candidate at the Delhi examinations has not undergone any specially expensive course of education. He hails just from the ordinary, inexpensive Indian College. But because the class of those who are successful in this examination get a certain remuneration they set a standard for all the other Services also. Everything is adjusted to the Imperial Service pays. The Provincial and the Subordinate pays have never had an opportunity to find their natural level but have been continually buoyed up by the range of the higher pay scales.

When the Retrenchment Committees made the claim that Indianisation should also mean provincialisation, they were pleading for what was but fair. Such a tripartite division of the services is elsewhere unknown. It is wholly artificial, and due only to the peculiar conditions of India. The generally accepted model of Civil Service organization, that of Great Britain in pre-war times had only two classes. Class I for recruitment to the higher administrative posts and class II for mainly the clerical establishments. And even this rigidity of a twofold division was sometimes complained against. The threefold division in India has a justification only when an alien official class rules us, but is obviously meaningless when Indianisation takes place. The proposal, therefore, that there should be no Imperial Indian officers is eminently just and needs no laboured defence. We can only contemplate, as elsewhere two classes of Government service recruitments (i) higher administrative and (ii) clerical, in the case of all departments.<sup>2</sup> But when it comes to the fixing of the pay of these classes we are still left with no guide. The Islington Commission or the Retrenchment Committees contented themselves with adding a little to the existing provincial scales. It is obvious, however, that there is no justification for this procedure, if, as is generally admitted, the provincial scales are themselves unduly influenced by Imperial pays. This influence is inevitable and how one type of service or grade scale can affect recruitment to another may be

<sup>2</sup> What I urge here is not so much the necessary adoption of a twofold division of Civil Services as the abolition of the present artificial distinction between the Provincial and Imperial Services.

shown by the concrete example of the recruitment to the Educational Service in the first decade of this century.

Before the recommendations of the 1886-87 Commission were adopted Indians were given graded posts in the Educational Service on an equality with Europeans. The number of Indians occupying such posts was sometimes quite large for the times. We find, for example, that in 1880 in the graded Educational Service in Bengal (corresponding to the later I. E. S.) 6 posts were held by Indians out of a total of 38. The Indians held a position of entire equality with Europeans and drew before 1881 the same pay also; but after that date according to the precedent of the Statutory Civil Servant they were paid two-thirds of the European's salary for the post. Now the curious effect of the Aitchison Commission's recommendations was entirely to bar Indians from the I. E. S. (The Islington Commission notes that only 3 Indians had been appointed to the I. E. S. during the period 1897-1915.) Further, the grades in the Provincial Educational Service were distinctly inferior to those in the revenue and judicial services with the result that it could not attract the best Indian material. The situation indeed in this respect was so serious that in 1908 the Government of India addressed a circular letter to the heads of all provinces desiring them to ascertain whether dissatisfaction prevailed in the Provincial Educational Services, whether this was well-grounded and the remedies they would suggest for its removal. The Provincial Governments all agreed generally that dissatisfaction where it existed was mainly due to the fact, that the promotion in it was too slow and the higher paid posts far too few, (some also point to the greater prestige enjoyed by officials of other departments as one of the reasons for the inferior attraction of the Educational Service) and the remedy suggested everywhere was the bettering of the general grades and the addition of some listed posts as in the case of the revenue and judicial provincial services. It would not, we believe, be contended that the pay given to members of the Provincial Educational Service in those days was in itself too low. The case only shows too clearly what is the likely effect of low remuneration in any particular service which seeks to attract recruits from the same source as the more highly paid services. It is only too clear that this has been happening all along the line. With Imperial Service posts being open to Indians all other competing employments have had to offer similarly high salaries to attract Indians of the same type. A glaring example of this being the abnormally high salaries that are paid at present in the Indian universities. The new Indian universities with teaching departments, many of them manned almost exclusively by Indians, are paying salaries in some cases actually in excess of those paid even by the British universities. A

professorship in a provincial English university may be worth anything from £ 800 to £1,000 per annum and will attract the best talent in England. A similar post in India will be advertised at anything from Rs. 750 to 1250 per month. Is it to be wondered that Indian university finances are nowhere very satisfactory? The evil effect then of the high Government salaries is all-pervading. It has resulted in creating an absurdly overpaid class of a fortunate few (those who get into Government or other services) side by side with very considerable unemployment and has resulted in India paying a price, enormously above the market price, to its servants while financial ruin stares it in the face.

If therefore, we argue that the present scales whether provincial or imperial offer no basis for the determination of what is the proper measure of remuneration for public servants in India, we must seek some independent criteria which when applied to Indian conditions yield this result. We postulate, of course, throughout this discussion, a cessation of further recruitment by the Secretary of State in England. We take it for granted that the services are to be all purely Indian and that the conditions of services etc. will not be affected by any extraneous considerations. Presuming these changes it is obvious that what will determine the payment made to Government servants in India is in the first instance the financial resources of the country or what we may call the "demand" side of the question and on the "supply" side various considerations such as the cost of training involved the need of attracting the proper type of recruit and giving him a proper social position etc.

Leaving aside for the moment the "demand" side, we may remark as to question of the cost of training that this is a comparatively insignificant factor except in technical employment in India. We have already noted above that the results of the Indian Civil, Finance and other competitive examinations held in India show that in these examinations no particular advantage is held by any particular universities or colleges. The original ideal of the British Civil Service examination that of attracting the best talent from among the universities of Cambridge and Oxford necessitated a fairly high standard of payment. In India there are no educational centres holding the position or enjoying the prestige of Oxford and Cambridge and the ordinary colleges are so cheap that the raising of the cost of higher education has in some quarters been seriously put forward as a remedy for unemployment among the educated classes. No doubt the situation is somewhat different so far as technical qualification is concerned. The engineering, medical and agricultural colleges are fewer and being situated in the bigger cities the cost of education in them is slightly higher than in the ordinary arts, science and law

Colleges. What is more important, however, is the fact that for certain types of technical employment Indian universities do not afford an adequate training and that, therefore, a stay at some foreign university becomes necessary. This difficulty is specially accentuated by the fact that at present a degree from a foreign university is in itself sufficient in most types of employment to secure the candidate a superior claim over the best products of Indian universities. The resultant situation is that an unnecessarily large number of Indian students seek education in foreign lands involving an appalling waste of Indian money. The situation is worsened by the competition for the I. C. S. held in London and by the special privileges enjoyed by those called to the Bar in England. That it also weakens the respect for Indian universities and weakens the impetus for improving their standards is clear. The obvious remedy which has been long suggested is that Government should, when it requires a specially trained officer depute him and bear the cost of his training, instead of as now, paying him a higher salary throughout the period of his service for having got that training on his own initiative and expense and indirectly encouraging a very large exodus of Indian students abroad in the hope of considerably bettering their prospects of getting employment when they return. The cost of training has thus no determining voice in the remuneration of officials and we may lower the scales of pay a very great deal without affecting supply from this side.

There remains the question of social position and integrity in the service and the question of attracting the proper type of recruits in sufficiently large numbers. The first offers a problem which is almost insoluble. We cannot determine absolutely what social position a Government official ought to hold. That he should be above want is clear; that his salary should not be so low as to make the temptation of illegally increasing it too great, is also clear. But there is no absolute measure by which we can determine these things. For the "poverty line" varies from country to country and it depends on the prevailing conception of the "standard of living" whether a man will consider himself well-off or otherwise. As long as persons of similar standing, qualifications and attainments are on an average earning much more elsewhere there is bound to be dissatisfaction. It depends, therefore, primarily on the prevalent standard of living whether certain scales of payment are suitable or not. In this connection it may be pointed out that the existing state of things provides us no guide whatsoever. For the whole situation is an artificially created one. The Imperial Service posts are the prize posts of the educated middle classes and the Imperial officers the aristocrats of this class. Their standards and conceptions in turn are a reflected

image of the standards of the European official. It is these European standards at second hand that thus influence our society most powerfully and captivate its imagination. For the large mass of the educated classes these standards are never attainable, but they exercise a powerful influence over their *expectations* and by holding up unreal ideals have been responsible for a considerable part of the prevailing economic discontent. In the existing type of social and economic organisation all over the world the Government official holds a position much above the labouring and somewhat above the skilled artisan classes. But apart from this general idea, the result of supply forces, no definite standard can be laid down. Our standards of living again, being themselves the *effect* of the present scales of pay, cannot be taken for granted. The "social position" criterion thus offers us no help except perhaps indicating the minimum below which the salaries cannot go.

There is then the further test of alternative employment. The difficulty of applying this is also very great. For, as the Islington Commission pointed out long ago, Government is almost a monopolist in this respect and it is rather the scale of official pays that sets the standard for other services than vice versa. The scales of pay of all other big employer bodies such as universities, corporations, port trusts etc., are shaped by the pays enjoyed by Government servants. There are very few types of regular employment open to middle classes in general of whom this could not be said. It may, however, be conceded that the earnings in the medical and the legal professions throughout the country are not, at least, directly affected by these scales and these may, therefore, be taken as true alternative employments. In this case, however, there is little data available about average earnings. Vague guesses may be made but they could not be taken as the basis of a valid statistical comparison. The profession of law is notoriously overcrowded throughout India and it affords but a scanty living to the majority of those who follow it. The medical profession though slightly better-off than law, is still congested. The general impression, which is so strong as to be stated with some certainty as a matter of fact, is that in neither of these professions is the average earning to be at all compared with the average remuneration obtained by members even of the Provincial services. This would merely indicate that the salary scales are too high, a fact that is too well-known, without indicating the level at which they may well be fixed. We are thus forced to resort, because the Indian conditions are themselves so considerably affected by the present salary scales, to a comparison with other countries to find out the relations that the Civil Service salaries there hold to (a)

the general financial conditions of the country and (b) the earnings in other occupations.

We may begin this part of our discussion by drawing the attention of our readers to a most important official document entitled "Note on the scale of salaries received by subordinate employees of the Government of India" written by Sir Charles A. Elliott in 1888. Sir Charles was induced to write this note because the whole question of native salaries had been opened up by the recommendation of the 1886-87 Commission which had held that Native salaries should be entirely independent of European scales. The note chiefly aims at presenting a comparative picture of the salaries obtaining in India and elsewhere. Sir Charles Elliott was able to collect reliable and detailed information through the British Foreign Office regarding the conditions regarding pay, pensions etc., and strength of cadres in the various grades in many other countries and the Appendix to his note contains fully tabled information about 17 foreign Governments. The note indeed is so interesting that no apology is needed for briefly indicating here the nature of its contents. Sir Charles begins by pointing out that there is in India no private employer who can or does compete with Government. He is of opinion that with regard to clerical work Government pays higher salaries than private employers in Bombay or Calcutta, though for menials it does not pay too much. In the main, however, he is concerned with the salaries of the native official class. He lays down at the very outset two general considerations: (i) India is the poorest country in the world; and (ii) education in India is spreading so rapidly as to make it reasonable to expect a downward trend in salaries. Actually, however, Sir Charles finds that "there is a constant tendency in the minds of Government officials to advocate a still higher scale." This extravagance in Indian salaries he attributes to (i) their being modelled on Anglo-Indian salaries; and (ii) the alteration in the Indian's standard of living. Apropos of the latter Sir Charles writes that any one who compares the comfortable position of a village land-owner who enjoys Rs. 1000 of net rental with the poverty of a clerk in a Government office on Rs. 80/- p.m. will see the difference made by this alteration. Sir Charles then proceeds to draw a detailed comparison of Indian salaries with those obtaining in other countries. He points out that even though Indians do not fill the highest posts in Government employ yet the provincial service scales are higher than those of most of the highest posts in foreign Governments. He remarks, for example, "there is not a single one of these chief magistrates of sub-divisions on the continent of Europe who receives as large a salary as the lowest grade Deputy Magistrate or Collector in Bengal." The obvious conclusion is thus reached that the

scale of Indian salaries and pension benefits etc., is the highest in the world. To conclude Sir Charles writes, "I do not expect that salaries can be lowered all round at one blow; but so far as new rates and scales have to be fixed for the Provincial Service, I think they should be fixed at a lower level and a steady and gradual process of reduction whenever an opportunity occurs should now be commenced." It cannot be imagined what incalculable benefits to the Indian Exchequer and to our national life in general would have resulted if this recommendation had been followed. It was, however, not heeded and most strange to relate this valuable document is not even so much as referred to by any subsequent enquiry into service pays or by any of the innumerable retrenchment committees. We wonder whether Sir George Schuster or the recent Committee at Simla knew of its existence. Any way we would certainly urge upon Government the necessity of collecting recent data on Sir C. Elliott's lines and bringing his note to date.

It is not easy for a private individual to collect this kind of detailed information. This is not, however, necessary. Firstly, our approach to the problem is somewhat different from that of Sir Charles Elliott, and secondly one can from the numerous reports, especially in the post-war period, of committee and commissions regarding officials' salaries in various countries and from the figures available in publications like the Year Books collect enough material to present in a proper perspective the position of official salaries in foreign countries. An attempt is made in what follows to do this as briefly as possible.

We may well begin with Great Britain where modern Civil Service organization may be said to have originated and where the service is among the best paid in the whole world,—always of course, excepting India. The highest class, in the Treasury classes of the British Civil Service, is the Administrative class, the recruitment to which takes place by the same examination as that for the I.C.S. in London. The scale<sup>3</sup> of salaries is £ 200 p.a. rising by annual increments to £ 500 p.a. The initial salary of the next grade above is £ 700 rising to £ 900 and there are, it is said,<sup>4</sup> good prospects of promotion to higher posts having a scale of £ 1000 rising to £ 1200. These are the graded scales. There are, however, higher posts with emoluments ranging from £ 1200 to £ 1500. Further the Deputy Secretary in each department receives a salary of £ 2200 and the Permanent Secretary, the highest post to which a civilian may rise, receives £ 3000 p.a. In contrast with the position of the Imperial Services in India it may

<sup>3</sup> Only the male salary scale is throughout mentioned; the female salary scale is always slightly lower.

<sup>4</sup> Barking and Martin, *Careers in the Civil Service*, 1928.



be noticed that while the total strength of the British Administrative class is 1140, there are in the service only 96 posts above the rank of Assistant Secretary, a grade which receives a basic salary of £ 1000 to £ 1200. The Executive class formed on the recommendation of the Reorganization Committee (1920) has an initial salary of £ 100 p.a. rising by annual increment to £ 400 with prospects of promotion to the higher Executive grade with scales of pay of from £ 400 to £ 850. Next to it comes the Clerical Class. The initial salary of this class is £ 60 rising to £ 80 p.a. at the age of 18 and rising thence by varying annual increments to £ 250 with an efficiency bar at £ 180. The lowest class of desk employees are the Writing Assistants who are employed on hand-copying and transcribing work, on the addressing of letters etc. This class is recruited by an examination, the age limit for which is 16 to 17. The salary scale for this class is 18 sh. per week rising to 22 sh. at the age of 18 and then by annual increments of 2 sh. to 36 sh. per week. These types of scales may be further exemplified by the schedules of pay for the Inspectors of Taxes (recruitment age 21-24) which are as follows; Inspectors and Assistants: £ 160 to £ 500 p.a. Senior Inspectors etc; £ 550 to £ 900. The Deputy Chief Inspector receives £ 1200 while the Chief Inspector's salary is £ 1500. Or take the Educational Inspectorate. Here the Assistant Inspector of elementary schools receives a salary of from £ 300 to £ 550 p.a. The Inspector's grade of pay of Elementary, Secondary and Technical schools is £ 500 to £ 900. Divisional Inspectors receive from £ 1000 to £ 1200 and Senior Chief Inspector for England gets £ 1500 per annum. The grades for higher officers are much the same whether, for example, in the Post Office, the Ministry of Health or the Government Chemist's Department. One thing, of course, has to be noticed, which is, that the above scales usually do not include the war bonus. The war bonus is given according to a complicated sliding scale. It has the effect of giving a large increase of salary at the lower grades of pay and a comparatively small increase higher up. Considering, for example, that the cost of living index stands at 165 (which is the basis on which it was calculated after September 1930), it would give a full 65 per cent increase on all salaries below 35 sh. per week, about 43 per cent at £ 200 p.a. and 33 per cent at £ 400 p.a. There is no bonus on the amount of salaries above £ 500 and no bonus at all is paid to those who are in receipt of salaries higher than £ 2000 and, therefore, for salaries of between £ 500 and £ 2000 the same absolute amount of bonus will be given. This will amount approximately to £ 135 with the index no. at 165. It will be seen that the lowest salary at the age of 18, that of the Writing Assistant, would under these conditions approximately be £ 95 p.a.

As another example of the type of salaries thought to be desirable and proper in England and the relation held between the various grades of servants in a given department may be cited the recommendations of the Committee on Police Service in Great Britain which reported in 1920. (It should be noted that this Committee had a similar problem presented to it as the Lee Commission — the determination of rates of pay increase consequent on a rise of prices. The Committee, however, did not think it necessary to suppress evidence. It gives the most elaborate tables about the living conditions of the police and a series of specimen family budgets.) The scale recommended by this Committee was for Constables 70 sh. to 90 sh. weekly, for Sergeants 100 sh. to 112 sh. 6 d. per week; for Inspectors £ 325-375 p. a. Superintendents £ 550 to £ 700 and the highest salary recommended was that for Chief Constables in the Metropolitan Police, that of £ 1,000.

We may now turn to the other countries and briefly present the facts. In South Africa the public service scales of pay are fixed by an Act of 1923 and are given in the South Africa Year Book. In the administrative class the highest grade that of the First Secretary has a scale of £ 1400-40-1600 p.a. while the lowest grade in this class that of senior clerks is £ 475-25-550. In the clerical division the first Assistants have a scale of £ 370-20-450 while the (male) lowest grade of clerks is £ 140-15-200. In the professional services the graduate scale is £ 270-290-340-360-30-600 and non-graduate scale £ 270-20-350-30-500 p.a.

In Canada<sup>5</sup> the highest post to which a civil servant can rise is that of the Deputy Minister. All Deputy Ministers except those for Finance, Railway and Justice were in 1924 in receipt of a salary of \$6,000 p. a.<sup>6</sup> Only the three latter received a salary of \$10,000. Officials of the type of the Director of Forestry, Controller of Currency, Director of Fisheries etc., received salaries varying from \$4,500 to \$4,800. The senior clerks' scale of pay was from \$1,500 to \$2,000; of clerk-stenographers, \$960-1,200 and the lowest grade of Junior clerks got from \$600 to 900. The general Candian scales are very low and a revision thereof is repeatedly demanded. A recent Royal Commission (1930) recommended entirely revised scales regarding the payment of technical and professional officials. The salaries proposed range from the lowest grade \$1,800-2,160 to the highest \$5,700-7,200 with some special posts of \$7,500 and upwards.

The payment of public officials in U.S.A. and Canada is not made on the system of general Civil Service grades but is based on a detailed classification of the different individual posts of officials, clerks

<sup>5</sup> Figures taken from the Budget estimates for the year 1924.

<sup>6</sup> 1 \$ is equal to Rs. 2.12 approx.

etc. in the various departments and fixing the pay scales for each type of post. A series of service monographs published by the Institute for Government Research on various U.S.A. Federal Government Departments contain detailed appendices giving the schedules of salaries obtaining in these offices. The following are some typical salaries abstracted from these monographs. An idea of the annual salaries of officials will be conveyed by them. *Department of Justice*—Attorney General \$15,000;<sup>7</sup> Solicitor General \$10,000; Assistant Attorney Generals \$7,500; District Attorney \$3,000-10,000; Marshalls \$3,000-6,500. *General Accounting Office*: Controller-General \$10,000; Assistant Controller General \$7,500; Chiefs of Divisions \$3,800-6,000; Chiefs of sections \$2,400-3,600; Investigators \$3,000-5,000; Auditors \$1,680-3,000. *Federal Trade Commission*: Commissioners \$10,000; Chief Economist \$7,500, *Civil Service Commission*: Commissioners \$7,500; Chief Examiner \$6,500; Chiefs of Divisions and District Secretaries \$3,800-5,000. *Tariff Commission*: Commissioners \$7,500; Special Experts \$3,500-5,000. *Bureau of Internal Revenue*: Commissioner \$10,000; Deputy Commissioner \$5,000; Revenue Agents \$4,200. *Bureau of the Budget*: Director \$10,000. *Federal Board for vocational Education*: Members \$5,000; Chief of Trade and Industrial Education Service, \$5,000; Chief of Agricultural Service \$4,500; Chief of Commercial Service \$4,000. The monograph on National Government and Public Health gives the salary of the Surgeon General as \$7,500, of Assistant Surgeons as \$2,000-4,000 and the scales for the Professional and Scientific services as \$1,860-7,500 and the sub-professional services \$900-3,000.

Below the officials are a series of clerical grades including senior clerks, typists, stenographers, clerks for special duties etc. The most typical of the clerical grades are as follows: \$1140-1500; 1320-1680; 1500-1760; 1680-2040; 1860-2400 p.a. \$1140 seems to be the lowest salary paid to a clerical employee. Among the labouring class employees are to be observed the following grades: Under mechanic \$1140-1500; Senior labourer \$1020-1260; Junior labourer \$900-1140; Messenger boys, \$600-780.

The salaries of public officials in Germany have been regulated by an act of the Reichstag passed in December 1927.<sup>8</sup> The officials engaged in general administration i.e. in departments other than the departments of Army and Police have been divided into two classes: (i) The higher grades, with fixed annual salaries, for the highest type of officials and the ministers and (ii) The administrative services, with incremental scales, for the vast bulk of the civil servants. There are 8 higher grades. The lowest has a salary of 14,000 R. M.

<sup>7</sup> This is a cabinet post. The salary of all ministers in U.S.A. is \$ 15,000 p.a.

<sup>8</sup> *Industrial and Labour Information*, 30th January 1928.

p.a. and the highest a salary of 45,000 R. M. p.a. (The salary of the President is fixed at 60,000 R. M. p.a.).<sup>9</sup> The Administrative services have a series of grades the nature of which may be illustrated by a few examples. The highest grade that of the Ministerial Councillor has a scale of 8400-12,600 R. M. p.a.; Grade 3: Principal Secretary, 44,800-7,000; Grade 4c: Superintendent or Senior Secretary, 2,800-5,000; Grade 5b: Head of the clerical department, 2,300-4,200; Grade 7: Secretary, 2,350-3,500; Grade 9: Chauffeur, clerk or head mechanic, 1,700-2,600; Grade 11; Office messenger or postal clerk, 1,500-2,200; Grade 12: Fireman, Hall-porter or Rural postman, 1,500-2,200.

Before the passing of the 1927 legislation the salaries of the high officials of the German republic were as follows.<sup>10</sup> Chancellor of the Reich, R. M. 36,000 plus R. M. 18,000 allowance; Reich Ministers, salary 33,000 R. M. plus 4,800 R. M. allowance; State Secretaries, 22,900 R. M.

For Japan the figures supplied by the latest year book are as follows. There are two main grades of the Civil Service. The scale of the 2nd grade is from 40 to 160 yens<sup>11</sup> per month and of the 1st grade of the Civil Service from 1200 to 4500 yens per annum. Among the high officers Parliamentary Councillors receive yens 5200 p.a. Prefectural Governors, yens 5200—6,000; Heads of Departments generally and the Privy Councillors, yens 6,500 p. a. Ministers of State, yens 8,000 and the Prime Minister, yens 12,000 .

The French grades of pay are in a fluid condition at present. The Martin Committee which did its work in 1927 and so completely overhauled the system that it was able to bring the number of different salary scales down from 483 to 42, drew up the salary scales between the limits of 8,000 to 80,000 francs.<sup>12</sup> There has been since further clamour for a revision on account of exchange variations. There are two rival trade unions, the National Federation of Civil servants and the Independent Federation of French Civil servants. Towards the end of 1928 the first was claiming a re-drafting of scales between the limits of francs 9,000 and 100,000 and the other which enunciated the general principle that "the revision of salaries should be based on the needs of the lowest rather than the highest grades" resolved for a minimum of 10,800 francs and a maximum of 100,000. It will be observed that the proportion of the highest to the lowest in one case is 11 : 1 and in the other less than 10:1. In 1929 the Chamber of

<sup>9</sup> 1 Re is equal to 1½ R. M. approx.

<sup>10</sup> *Europa Year Book*, 1928.

<sup>11</sup> 1 Yen is equal to Rs. 1-6-0 approx.

<sup>12</sup> 1 Re. is equal to 9.4 Francs approx.

Deputies adopted the revised Government proposal of francs 8,500 minimum and francs 110,000 maximum. The National Federation has in the meanwhile increased its demand to 10,800 minimum 125,000 maximum, the rival federation stoutly opposing the higher maximum.

No doubt these comparative statistics could be indefinitely multiplied but the figures given above should suffice to convey a clear idea as to the conditions in the various countries. We intend to examine these figures from two points of view. (i) what proportion does the payment of the lower type of official bear to the earnings of the labouring classes of that country and (ii) what is the range of variations in the salaries of the official class from the lowest clerk to the highest administrator. It would have been also valuable if we could have compared the official salaries in the various countries with the earnings of the professional classes etc. from amongst whom the bulk of the officials are recruited. We have, however, so little statistical evidence available on the subject of professional earnings that this type of comparison cannot be made. But in this connection the results of investigations embodied in a publication regarding the position of engineers in Government employ in the U. S. A. will be of interest<sup>13</sup> It is pointed out here that security of tenure and the opportunity of public recognition are two important advantages in public service. After a detailed survey the conclusion is also reached that the lower grades of engineering work are better paid in Government service than in private practice and that the salaries are on an average better in the beginning in Government service but are poorer later on. The number of high-paying positions in Government service is few. Again "National Governments, states, cities, technical schools salaries, while closely corresponding with those paid by railroad companies during the first 20 years, are materially less after that period: other corporations and private companies pay considerably higher salaries and the largest incomes are those of consulting and contracting engineers." The authors of "Careers in the Civil Service" write of British Civil Service salaries as follows :— "The scales of salaries in the Civil Service do not at the present time, compare unfavourably with those of employees in analogous occupations in the commercial world. . . . It is quite true that the highest prizes offered in the business world greatly exceed, from a financial point of view, anything which can be attained in the civil service. It is on the other hand undeniable that the remuneration obtainable by the majority of employees in the Civil Service is higher than that of the majority of those in business world *who enter as employees without capital or influence.*"<sup>14</sup>

<sup>13</sup> *Engineer in Public Service*, Bureau of Municipal Research, 1916.

<sup>14</sup> Italics mine.

Except such general remarks as quoted above we have no material for a comparison of official salaries with professional earnings. We can, however, compare them with the earnings of the labouring classes. To begin with England, the average earnings of males of all ages classed as wage earners in 1924 were estimated at £ 115<sup>15</sup> a year. This average included both boys and the super-annuated and the average earnings of men at full work came up to £ 132 p. a. The results of Bowley and Stamp's enquiry into the position of salaried persons are also interesting. The enquiry revealed that most of the salaries were above the level, £150. The material for the enquiry was obtained from a number of firms, companies and local authorities. It showed that the largest number of low salaries were recorded in banks, where a quarter of the total number of male employees got a salary of less than £ 150, while the lowest (3.2 per cent) was amongst teachers employed by local authorities. These figures give us some idea as to the relation that salaries of the lower grades in public employ bear to the earnings of the working classes. The lowest grade of the public official starts at rather an early age and has a lower starting pay than that of the manual worker. Even the highest grade of the Writing Assistant does not bring him up to a scale that is higher than the middle class of skilled workers. It is also fairly clear that £ 150 was in 1924 the lower limit of the earnings of the salaried classes in general. This is only a little higher than what a member of the Clerical Class of the British Civil Service would have got in 1925<sup>16</sup> at the age of 18. Further "In the Army and Navy the number of salaries less than £150 appears to be negligible." Among the Professions are included the clergy ("very few of whom are below the minimum,") and as classes among whom there may be earnings less than £ 150 are noted "teachers other than those employed by local authorities, professional sportsmen and clerks attached to professional men." Of the total number of those enumerated under the heading "Professions" at the Census of 1921 it was taken as a safe assumption that not more than 15 per cent earned less than £ 150. To put the correspondence between the earnings of the two classes in another way, it may be said that the average earnings of the male adult labourer at full work were up to the lower limit of the earnings of the salaried and professional classes.

For further comparison the following scales of wages of skilled and unskilled labour in England obtaining in 1925 may be noted.

<sup>15</sup> This figure and the figures that follow are taken from Bowley and Stamp's paper "National Income", 1924.

<sup>16</sup> With the index no. at 180.

		(weekly)	
		s.	d.
Labourers :	Engineering ..	40	—2
„	: Shipbuilding ..	38	—5
	Bricklayers ..	73	—6
	Bookbinders ..	73	—4

This would show that in 1925 the wages of the unskilled labourer were a little higher than the starting pay of the Writing Assistant, while the wages of the skilled labourer were somewhat higher than the Writing Assistant's highest grade, or equal to the lower grade of the Clerical Class.

As regards the range of variations it may be noted that the highest grade as much of the Civil Services is £ 1200-1500; there being, of course, a few specific posts such as that of the Deputy Secretary and Secretary which go far above this. If we take then £ 150 as the lower limit of salaries there is for the highest payment of a regular pay grade in the Civil Service a range of ten times the lowest or if we take the salaries of the Secretary a range of up to twenty times. In the individual departments for which we have cited figures the salaries of the highest and lowest posts do not show even as large a range as ten-fold.

In South Africa the problem of comparing the salaries with the earnings of the working classes presents some difficulty as the working classes there are the Negroes. But some figures may be given for the earnings of the European skilled labourer. The following are the figures for July 1925 :—

	s.	d.
Engineering (per day)	20	0
Typesetting (per week)	134	9
Other printing ( „ )	122	6

These wages, it will be seen, show the income of the skilled worker to be equal to the higher grades of the clerical class of the South African Civil Service. The lowest scale for the male clerk is somewhat lower than the average earnings of the European skilled labourer in South Africa. The proportion of the salary of the highest administrative post to the salary of the most junior clerk is to be observed as being 11 : 1. It may further be stated that in South Africa the salaries of Ministers are £ 2,500 p. a. and the highest salary that of the Prime Minister is £ 3500. It should be noted in this connection that the Public Service Commission enquiry into South African Police which investigated into the grievances of the service in 1919 recommended a scale which was as follows :— Constable £ 140-210; Sergeant £ 260-350; Inspector £ 500-600; Deputy Commissioner £ 800-1,110; Commissioner £ 1,750-2000.

In Canada we have detailed evidence as to wages earned by urban industrial labour in the year 1925 in the records of the House of Commons, Select Standing Committee on Industrial and International relations . This records the earnings of ordinary labourers in civil employ as \$ 955 p. a. and of labourers in the building trades as \$ 1,076. The average wages of semi-skilled and skilled factory labour were respectively \$ 1,241 and \$ 1,610. And highest amongst the wage earning classes, printers earned \$ 2,053 p. a. and bricklayers \$ 2,311 p. a. This shows that the junior clerks got less than ordinary labourers and the senior clerks much less than the bricklayers. The range here again in the service scales is about tenfold for the ordinary scales. The Ministers' salaries in Canada are \$ 10,000 p. a. and the highest salary, that of the Prime Minister, is \$ 15,000 i.e. about 15 times as much as the earnings of the ordinary labourer !

For a comparative study of the U. S. A. scales we may use Paul H. Douglas's figures.<sup>17</sup> These show approximately the following average earnings for the various classes of manual workers for the years 1924-1926. (i) Unskilled labour, \$ 1075 p. a., (ii) Manual workers in manufacturing and transportation, \$ 1280 p. a., (iii) Workers in the building trades, \$ 2182 p. a. These figures reveal the comparative position of Government employees in U. S. A. as being better than in Canada. Here the lowest paid clerk is on a level with the manual worker in manufacturing and transportation and the average earnings of senior clerks are the same as the average earnings of workers in the building trades. The range in the general service scales is nowhere more than 10 : 1. The salaries of the Senators are \$ 10,000 each and the salary of the Chief Justice of the Supreme Federal Court is \$ 20,500. This is 20 times the earnings of the unskilled labourer.

In the case of Germany the figures given above of official salaries themselves contain some material for comparing the earnings of different classes. The designation of Grade 9 is in this instance instructive. These may be supplemented by information for the earnings of industrial labour. These were for January 1928 as follows :— Unskilled labour (average weekly wage) 37.43 marks and skilled labour (average weekly wage) 49.82 marks.

For Japan the following figures for the wage rates obtaining in Osaka in July 1925 may be utilized : Bricklayers 3.50 yens per diem; Printers etc. 2.72 yens p.d. and Building Labourers 2.40 yens p. d. And the annual wage of a farm labourer during the same year in Japan is given as 450 yens. Thus the average earnings of the building labourer would about equal the average earnings of the Second Class

<sup>17</sup> Paul H. Douglas, *Real wages in U.S.A.*



Civil servant while the earnings of a bricklayer would approximate to the pay of the lower grades of the First Class Civil servant. The salary of the Prime Minister represented an amount somewhat less than 27 times the annual wage of the farm labourer.

It will be noticed that the position of the civil servant is distinctly better in England than in any other country. He is very poorly paid in Canada and is not much better off in U. S. A. The Japanese grades also do not show his position as compared with that of the labouring classes very high. The position in Germany is slightly better and it is much better still in England. The same thing may be observed regarding the variations in the scales. The reason for these differences is perhaps mainly historical. But it may be pointed out that England has during the larger part of the 19th century been in a peculiar position. The vast extent of its dominions has called for the services of a large number of public officials who were naturally very well-paid. The same was true of a large number of the members of the professional classes. The British Civil Service in its highest ranks further has always aimed at recruiting the best of the English University trained man; and the demand for this type has been peculiarly large for many decades past. This demand has affected not only the general level of payment necessary to be made by the services in England and the Dominions but also the scale of payment in the universities themselves. The Royal Commission on Oxford and Cambridge Universities (1922) write as follows in this connection. "The usual type of "don" is now a person who could command a high salary in many different walks of life. His choice no longer usually lies between the church and the teaching profession. Well-paid professorships all over the English speaking world are frequently offered to Oxford and Cambridge men. Excellent business openings are now available to successful students, especially in science, sometimes with enormous salaries attached." The higher grades of salaries and the greater inequalities found in England may thus be explained as chiefly arising out of the very considerable demand all over the British Empire for the university trained Englishman. It is interesting to note in this connection that the first item in the recently formulated common programme of British Civil Service organizations is the obtaining of a minimum wage of £ 3. 10s. a week inclusive of bonus, no demand being made for increasing the maximum.

A review of the figures given above indicates that in most countries a certain relation exists between the earnings of the labouring and the salaried and professional classes and the figures further show the measure of the inequality between the various grades in the Civil Services. The general impression is one of the proximity of the position between the labourer and the lower class of officials and of a

comparatively small inequality in most service grades. It may be well to pause and enquire the extent to which the type of relation disclosed by the study of earnings and salaries in foreign countries is to be found in India. We do not mean to imply that any invariable or universal relation is discernible but would only point to the fact that the relation that holds in India is immensely different from the one that obtains elsewhere. Before considering whether there are any special reasons justifying this we may append herewith some representative types of salary gradations in India.

We may exemplify the Indian scales by the following figures of salaries that obtain in the Bombay Presidency. For purposes of illustration examples of salaries from three different departments have been cited. These are (i) General Administration (ii) Police (iii) Education.

(i) General Administration			Rs. p. m.
Governor	..	..	10,000
Members of Council	..	..	5,333½
Commissioners of Divisions	..	..	3,000 to 3,500
Secretaries of Departments	..	..	3,000
Collectors & Magistrates	..	..	1,150 to 2,500
Asstt. Collectors & Magistrates	..	..	450 to 1,600
Deputy Collectors & Magistrates	..	..	300 to 1,200
Head Clerks	..	..	200 to 250
Clerks	..	..	30 to 200
Servants	..	..	15 to 27
(ii) Police			Rs. p. m.
Inspector General	..	..	3,000
Deputy Inspector General	..	..	1,750 to 2,150
Divisional Superintendents	..	..	600 to 1,450
Assistant Superintendents	..	..	325 to 675
Inspectors	..	..	180 to 400
Sub-Inspectors	..	..	75 to 160
European Sergeants	..	..	150 to 200
Head Constables	..	..	28 to 50
Constables	..	..	20 to 24
(iii) Education			Rs. p. m.
Inspectorate			
Director of Public Instruction			3,000
Inspectors	..	..	1,300 to 1,500
Deputy Inspectors	..	..	250 to 800
Asstt. Deputy Inspectors	..	..	50 to 300

Teaching		
Principals & Professors (I. E. S. Select Grade)	..	1,350 to 1,750
Professors etc. B. E. S. I.	..	320 to 1,200
B. E. S. II.	..	250 to 800
Assistant Masters (higher grade)		200 to 300
Ordinary graduate assistants	..	70 to 200
„ undergraduate „	..	40 to 150
Primary school teachers (permanent qualified)	..	20 to 60
Primary school teachers (unqualified)	..	15

The differences in the various grades are more marked than anything to be found in the other countries. There is further a much wider gulf between the earnings of the labouring classes and the salaries of Government clerical staffs than is to be found elsewhere. This will be made clear by a few figures regarding wages in the Bombay Presidency. The Bombay Labour office enquiry regarding wages in the cotton mill industry in 1926 shows the average monthly earnings of two loom-weavers in Bombay to be Rs. 49-9-1; in Ahmedabad Rs. 49-10-3 and in Sholapur Rs. 43-6-6; the average monthly earnings of a full-time male sider were in Bombay Rs. 27-9-11 and in Sholapur Rs. 19-10-9. The model average of male monthly earnings for the whole industry showing frequencies of earnings was Rs. 25 for Bombay and Rs. 19 for Sholapur. Further, the average daily wage of urban unskilled labour was in 1929 Rs. 0-10-8 and that of the urban skilled labourer Rs. 1-9-3. The highest wage obtained by skilled workers such as masons and carpenters being given as being approximately Rs. 2 per day. The initial salary of the most junior clerk in Government service is thus seen to be much above the average earnings of the urban unskilled labourer and the highest earnings of the skilled labourer do not take him above the lower grades of the junior clerk's earnings. It should further be noted that while in the industrial countries the unskilled urban worker is among the lowest economic classes, this is not so in India. For, here the average income of the large mass of agriculturists is much smaller than the earnings of industrial labour. The scales of salaries obtaining in the other Provinces and in the central services are similar to those given above for the Bombay Presidency. It may be noted that the salary of the members of the Executive Council of the Governor-General is Rs. 6666-10-8 p. m. and the salary of the Departmental Secretaries with the Govt. of India Rs. 4000 p. m.

A very striking illustration of the peculiar influence of British standards of payment on Indian scales and of the enormities of the differences between the various grades thus created is furnished by the salaries in the educational department in India. For purposes of comparison we may first cite the British scales. We have already noticed above that almost no teacher employed by local authorities in England was paid less than £ 150 in 1924 which may be thus taken as the lower limit of the payment of primary school teachers in England. For 1925 again the average salary for assistant masters in secondary schools is given as £ 390 and of head masters as of £ 763.<sup>18</sup> The emoluments attached to University chairs in most universities in England vary from about £ 800 to £ 1200. We may in this connection also note the recommendations of the Royal Commission on Oxford and Cambridge Universities (1922). The Commission recommended that the minimum stipend for a fellowship should be £ 200 and the ordinary scale they proposed was a salary of £ 300 p. a. rising by quinquennial increments of £ 50 to £ 500. The Commission find that the emoluments attached to professorships still remained at their 1877 level (£ 600 — £ 900 at Oxford and £ 600 to £ 850 at Cambridge). They emphasized the need of raising this and recommended that as a rough general rule the normal stipend of a whole-time professor should be about £ 1200 in addition to any allowance upto £ 50 a year as maximum paid to him as fellow of a College. This it should be observed, is a variation of from £ 150 to £ 1200 from the primary teachers to the highest paid University Professor.

Compare with this the conditions obtaining in India. The average salaries of teachers in primary schools in the various provinces of India are given by the Hartog Committee. For Bombay the average is Rs. 47 p. m. which is most exceptionally high. The normal level in India is represented by the figures for the Punjab, C. P. and U. P. which are Rs. 25-8-0; Rs. 24-8-0 and Rs. 18-8-0 p. m. respectively. The lowest average Rs. 8-6-0 p. m. is to be found in Bengal. The Bombay undergraduate and graduate teacher scales (40-150 and 70-200) previously given are fairly representative of the payment of secondary teachers in Government employ. This no doubt is very high as compared with what is paid to the primary teacher but the real absurdity is reached in the payment of college and university teachers. The I. E. S. scales are on the old Imperial model but even the new provincial scales are yet surprisingly high. Thus the Bombay Educational Service class I-a scale framed and announced in December 1930, only a few months before the time when the Government was proposing an all-round salary cut- has a scale of Rs. 320-40-1200

<sup>18</sup> Cyril Norwood, *The English Educational System*.

p. m. It is easy to see that this actually exceeds the level of payment at present current in Oxford and Cambridge. The usual scale of payments made to university professors in India varies from about Rs. 750 p. m. to Rs. 1500 p. m. When it is realised that English recruitment has practically ceased for almost a decade in the Educational Service in India and that the incumbents of university chairs throughout India are, with few exceptions, Indians it will be perceived how persistent and universal has been the effect of the Imperial salary scales and what an enormous drain on our financial resources in every sphere is involved in the continued payment of these salaries.

We have purposely refrained throughout from mentioning the question of allowances, pensions and leaves. These are as liberal or extravagant-so even Sir C. Elliott found them-as the salary scales. Even the Inchcape Committee, which would not touch the salaries, recommended a general re-consideration of all sorts of allowances. Then there are such things as specific salaries attached to special posts. The grades themselves are liberal enough, but it is usually found that a number of officers, especially in the Imperial services, are getting much more, with one thing and another, than the time scales would lead one to believe. The allowance and pension costs are directly observable. But not so with leave. A moment's reflection will, however, suffice to show that the more liberal the leave concessions the larger must be the staffs to be entertained. All these are the adjuncts of the salary standards themselves and a salary reform will naturally proportionately affect them.

A relation so unequal among the various grades and a salary level so much higher than the income of the masses in India could be justified only on one of the following grounds. (i) That the supply of the recruits of the type required as public officials is restricted, (ii) That there is, as a fact, greater inequality amongst various strata of Indian society than elsewhere, (iii) That the social position held by the official is traditionally higher than elsewhere. None of these contentions can, however, be held to be valid for India. As regards the first contention it may be conceded that in India, say about 50 years ago, the English-educated community was so small that almost all that came out of the universities could find a place in Government service or lucrative jobs, or a considerable professional income outside. The state of affairs has, however, been changing steadily and for the last two or three decades at least the supply of university trained men has rapidly tended to outgrow the demand for them.<sup>19</sup> The situation has,

<sup>19</sup> It is relevant also to note that while the demand for the services of similar classes of the Imperial nations—especially England—is much wider than the home demand, not even the whole of the Indian demand has hitherto been available to Indians.

indeed, become so serious during the last decade that in most provinces of India Committees have of late been appointed and have reported especially, on the question of unemployment in the middle classes. The number of graduates etc. has been steadily on the increase, so has the percentage of the unemployed amongst them and the remuneration that they have been able to secure outside Government service has steadily diminished in amount. Definite figures for unemployment are not available but calculations such as those made by the Madras Unemployment Committee are conclusive enough on the point. There is not the slightest reason for postulating shortage. The supply is by all accounts far in excess of the present demand. This refers, of course, to general clerical, judicial, administrative and educational services in particular. For some of the technical posts this may not be true but we are here concerned with the general question. Exceptional treatment can obviously be given to any special type of post for which special recruitment is necessary. We have already dealt with above with the allied question of the cost of training in our educational institutions.

On the second ground also there is no reason for believing that in India inequality in the distribution of the national income is greater than in other countries. Our income-tax statistics are so incomplete, on account of the high exemption limit and the exemption of agricultural incomes, that it is not possible to obtain from them any idea as to the distribution of income in India. India, however, is predominantly an agricultural country and a country of small holdings and small peasants. Presumably, therefore, the national income with us is on the whole more evenly distributed than in the highly industrialised countries. It may be that we have a few exceptionally high individual incomes. But so far as the inequality between the various social grades is concerned this cannot be very large i.e., apart from the effect that the level of salaries itself has had on the situation. At any rate there is no reason for believing that there are any inherent economic inequalities in the classes which have to be or are naturally reflected in the salary levels. Neither is it true that there are any special circumstances about the official class in India which require a considerably higher scale of comparative payment than is the case elsewhere.

A plea that is likely to be put forward in favour of high salaries is the desirability of making officials proof against temptation. This may be easily granted. But it may be questioned whether it is necessary to pay the present salaries to achieve this end. What is important to bear in mind in this connection is that discontent with one's economic condition, which may be said to be the basis of the temptation, arises of what we may call a comparative view. Above a certain minimum which can, for Indians in general, be put very low, there are

no absolute necessities. Above this minimum what governs us are the general standards of our social class. If one set of servants obtains low payment as compared with others more or less similarly situated socially and educationally they may well feel aggrieved. But if the whole scale is absolutely depressed there is no fear of increasing the temptation in the service. No doubt, with present scale and present conceptions discontent is sure to arise on a lowering of pays. It is, therefore, the present conceptions that need to be radically changed.

We must, therefore, in recasting the service scales proceed rather from the bottom than from above. The question has to be initially approached from the standpoint of fixing the minimum wage for the lowest grade of Government officials as, for example, is done in the report of the Madras Salaries Committee (1920). This Committee, was of opinion that the starting pay of clerks, copyists etc. should be fixed at Rs. 30 p. m. Of course, this was fixed after taking into consideration the price level of the post-war, 1919-20, period and after considering certain budgets and dietaries. Having in this way arrived at a minimum the framing of the grades above the minimum should follow in such a manner as not to put any scale at a level higher than what is just necessary to attract the higher type of recruit. And there seems no reason that when we do this our inequalities in scales will have to be any greater than what are found to exist in the other countries. Looked at from this point of view the limit of Rs. 500 in the Congress resolution does not certainly appear as absurd as a number of solemn people have tried to make it out to be. Perhaps the transition from the old to the new scales may take a little time but that is no reason for not looking the issue straight in the face immediately and trying to determine what is on a review of the whole question the proper salary for us to pay.

In this connection it is necessary to make it clear that, in our opinion, it would not do in this matter to start with any preconceived notions of a middle class standard of living. The standard of living is always an entirely relative conception. Take the "poverty line" as defined in pre-war or post-war England, say by Rowntree or Bowley. This is an extremely useful and a perfectly valid measure so far as England is concerned but would certainly have failed in giving proper results if applied to any of even the other European countries. In the same way we have the Douglasses<sup>20</sup> dividing the budgets of the poorer classes into (i) The poverty level (ii) The minimum of subsistence level (iii) The minimum comfort level. Translated into money terms at 1921 prices and the prevailing American standards these three types could concretely be put at average families having an annual income of (i) less than \$ 1500 (ii) \$ 1600-1700 (iii) about \$ 2000-2400. Now

<sup>20</sup> Paul & Dorothy Douglas, *What can a man afford?*, 1921.

these terms describing the types of budgets may do for all countries but their concrete monetary expression will vary extremely widely. For, standards reflect national conceptions and these latter are to a large extent formed by the national income. There may be a lower limit of physical sustenance but even this is found to vary with the dietary of the people and the minimum on which men have not only subsisted but thriven and built up civilizations is so low that the question of standards of living need not materially concern us. (It may be, however, admitted that the conception has a validity when determining special allowances such as housing allowances under special conditions). Indian members of the Imperial services argued before the Lee Commission that there was no such thing as an Indian and a European standard of living. There was only one universal desirable standard (the English or perhaps the American). They further contended that Indian universities being inefficient they were compelled equally with their European colleagues to send their children abroad for education ! Such are the limits to which the nebulous concept of the absolute standard may drive one and it need not, therefore, detain us.

We have, of course, heretofore entirely neglected the demand side. What is it that the Indian exchequer can afford to pay? In this connection there is also no way of determining the comparative capacity of Governments. A study of the recent budgets or the existing financial position cannot help us much. For, the variations in contemporary circumstances or in the expansion of activities and the number of employees of the different Governments are enormous. A vague indication of capacity may be found in the comparative estimates of per capita national income of the different countries. The most widely used and convenient account of these available, that of Stamp's gives the annual national income per head in 1914 approximately as follows. U. S. A. £ 72; U. K. £ 50; France £ 38; Germany £ 30; Canada £ 40; Australia £ 54; Japan £ 6. We have no comparable figure for India. Various calculations have been made, most of them in the post-war period and most of them open to objection. The most famous pre-war figure is Lord Curzon's estimate of Rs. 30 i.e. £ 2. To bring this up to the 1914 level it would be necessary to make an allowance for the rise in prices that took place between 1905 and 1914. This according to Mr. Datta was 35 per cent. There is no reason then for believing that the per capita annual income in India was in 1914 in any case greater than £ 3; probably it was much less. There are further no grounds for believing that the comparative position of India has become any better since 1914. Indeed, if anything, it seems to have worsened. It would have been very convenient, if we had later figures of per capita income sifted by someone of Stamp's authority; further



unfortunately such figures as are available do not all relate to the same year and are, therefore, not readily comparable. The figures that are available are, however, given below. For U. S. A. we have Mr. King's estimate for 1918 as \$ 586 and the later figures by the National Industrial Conference Board are for 1920, \$697; 1924, \$619 and for 1928, \$ 676. For Great Britain we have Professor Bowley's estimate for the year 1924 as £ 93.<sup>21</sup> For Germany the Europa Year Book (1928) gives a figure of total national income which when resolved into a per capita figure gives the result of R. M. 800 or £ 39 approximately for the year 1924-25. A similar calculation based on the figure for national income for the year 1925 given in the Canada Year Book gives a per capita figure of \$ 518 for that country. And for Japan the latest Year Book gives a figure of per capita national income of yens 218. It should be noted that the same year book gives the comparative figures for U. S. A. and Great Britain as yens 1,374 and yens 862 respectively. For India the most elaborate calculation yet made has been that of Messrs. Shah and Khambatta. Their figure for the year 1921-22 is Rs. 74 or roughly equal to £ 5. Exact comparisons are unnecessary for our purpose. But all these statistics taken together emphasise the depth of our poverty. The western countries are all immeasurably richer; but if we take Japan it has according to the latest figures a per capita income of nearly Rs. 300 per annum to our possible Rs. 75, even if we take the 1921-22 figure as holding good to-day, an extremely liberal assumption. A difference that of at least fourfold! It should further be remembered that the taxable capacity of a poor nation is more than proportionately less than that of a rich one. It is not implied that the proportions of the national income should be exactly reflected in the proportions of the salaries. But it is certainly expected that there would be some correspondence in these two relations. As it is India has had *not comparatively* but *absolutely* the highest scales of pay for Government officials in the whole world for more than a century!!

An argument based on the desirability of encouraging an increased standard of living may also be introduced in this controversy. It is really doubtful how far a desire to live better results in the obtaining of a higher income. But anyway the argument could be made applicable only to those engaged in the materially productive occupations. With a higher concept of the standard of living the agriculturist may strive harder, adopt better methods and thus adding to the national income entitle himself to a larger income than before. This sort of reasoning could, however, hardly be adopted in the case of the activities of Government officials in receipt of fixed salaries. There is here no payment by results and though the officials' activities may prove

<sup>21</sup> *Economic Consequences of the Great War.*

highly productive in the best sense of the term, they are only indirectly so. And further their results take a long time to come to fruition. It would thus be not proper to pay high salaries to Government officials to increase their standard of living. Their scales should wait on the movements of the national income and cannot be made to precede it. For there is no guarantee that a movement of these salaries in a particular way will result in a movement affecting the national income in a similar direction.

Salary reform is one of the most vital problems of contemporary India. It is a reform most urgently needed. The financial reasons for it are most obvious. The finances of almost all the Provincial Governments and of the Central Government are in a parlous condition. It is difficult for most of these to make both ends meet even in ordinary years. A future Swaraj Government which will stand committed to land revenue reform and a policy of prohibition and in which the democratic machinery will have become more complicated and elaborate will be presented with a problem that is almost insoluble. It will at the same time be under the necessity of increasing considerably its expenditure on "nation-building" activities. One of the most obvious and considerable means of economy is the revision of salary scales. As the above discussion may have made clear this is a matter in which the present conditions are most conspicuously at variance with what should and need be. It is a gratuitous waste of public funds to keep on paying the high salaries that are paid at present. The effect of these scales on public finances as well as the national economic life are extremely harmful. It enables a few to live exceptionally well by impairing the capacity of the State to undertake larger activities and employing much larger numbers. It gives an artificially elevated position to the official where he comes to consider himself as an altogether superior person. It gives an entirely wrong turn to the notions of young men in India. It has often been complained that the educated Indian is extremely fond of a salaried job and would not look at commerce, industry or agriculture. But this is certainly not to be wondered at. As long as the service pays are considerably larger, larger out of all proportion to the income that can be obtained in agriculture or in industry and commerce with their need of capital or influence and their uncertainty, young men will flock in as large numbers as they do at present to obtain a salaried job. The high scales of pay are thus responsible for artificially diverting the attention of our young men from other fields and concentrating it on Government service. It is only when a job is not available that most among the educated classes will fall back on something else. It is obvious that Government service will not prove as attractive in the future as it does today, but we need not

as pointed out above fear a dearth of sufficient recruits. Today the attraction is fatal from the point of view of larger national interests. India suffers from a considerable number of handicaps in almost all directions as compared with other countries. Its resources as compared with its needs are deplorably poor in all directions except that of labour and especially brain labour. This latter is cheaper in India than anywhere else and we should utilise this advantage fully in building up large national services.

The high salary has not only made the superior official feel entirely apart from the bulk of the populace, it has also given a peculiar turn to the demand for consumption of goods from this rich official class. Their standards of living have become largely Europeanized as evidenced conspicuously in the matter of dress. This has as pointed out above resulted in creating greater unemployment and in deepening as well the discontent arising out of it. It has made current amongst us ideas of a standard of living which have no correspondence to the facts of our economic life and which cannot be adopted by others than those who are being grossly overpaid.

It may well be asked what the magnitude of the total issue involved is. The most direct way in which this could be answered would be by giving the amount of the total salary bill of the various Indian Governments. This figure cannot be ascertained with any ease but we have available in the income-tax reports, statistics which enable us to form a fairly accurate idea of the position. The Indian income-tax statistics embrace all non-agricultural incomes above Rs. 2,000 a year. The following table shows the total income assessed and the income assessed that was paid in salaries, for the different years.

	<i>Crores, Rs.</i>		
	1927-28	28-29	29-30
Total income assessed ..	232.97	244.50	253.15
Salaries income ..	70.23	72.11	74.52 <sup>22</sup>

<sup>22</sup> The following table of how this figure is distributed among the various grades of incomes may perhaps interest some readers.

Income Grade p. a.	Total Income assessed
Thousands	Crores
2- 5	27.05
5-10	18.39
10-20	16.65
20-30	6.46
30-50	3.49
over 50	1.23
unclassified	1.25
	<hr/>
Total	74.52

This shows what an important position in the richer non-agricultural classes do the salaried classes hold in India to-day. The salaries income figures, of course, include salaries paid both by Government and private individuals and associations. There is unfortunately in these returns no differentiation made between salaries paid by Government and by others. There is, however, another return—that of income-tax demand—which gives the necessary details. The gross income-tax demand for the years 1927-28; 1928-29 and 1929-30 was Rs. 13.18; 14.13; and 14.40 crores respectively. Out of this the income-tax demand on salaries paid by Government and by local authorities for the corresponding years amounted to Rs. 1.70; 1.76 and 1.82 crores. The income-tax demand on other salaries during these three years averaged at a little over Rs. 1.30 crores. If then we assume that the rough proportion of about 7 : 5 which is to be observed in the demand figures as between salaries paid by Government and by others holds good of the income figures also, the total salary bill of Government may be taken to approximate on average figure of Rs. 40 crores.<sup>23</sup> A salary reform initiated by Government will directly affect the whole of this huge figure all of which being above the Rs. 2000 p. a. limit is capable of the most drastic treatment being applied to it. Such a reform is also bound to have repercussions on the salaries paid by other public bodies and individuals.

The favourite argument of Government spokesmen that after all the high salaried posts are but few and the total economy effected by

<sup>23</sup> The Ad Interim report of the latest Retrenchment Committee of the Government of Bombay gives interesting figures of the total cost to Government of salaries in 1928-29. They are as follows:—

		Rs.
Pay below Rs.	40 p. m.	150 lakhs
„	40 to 59 p. m.	41 „
„	60 to 199 „	144 „
„	200 to 499 „	67 „
„	500 to 999 „	44 „
Above Rs.	1000 „	91 „
		Total 537 lakhs

This was out of a total expenditure of approximately Rs. 14½ crores. The total salary bill for pays above Rs. 2400 p.a. is equal to Rs. 2.02 crores. To arrive at a figure for salaries above the income-tax exemption limit some few lakhs will have to be added to this figure. Roughly the cost of salaries above Rs. 2000 p. a. limit represented an amount a little over one-seventh of the total expenditure of the Government in 1928-29. The total expenditure of the Central and Provincial Governments and local authorities was in 1928-29 above Rs. 270 crores. If one-seventh is here also assumed to be the similar proportion Rs. 40 crores is not wide of the mark.

revising the scales will only save a little money has depended on the underlying assumption of a small percentage cut. But such a cut will not meet the situation. What is wanted is a far more radical step; and the conclusion to which this study forces us is that the extent of the reform needs must be more extreme than is usually thought of or advocated—except in the Karachi Congress resolution. We must look at the whole structure of Indian official machinery and the salary scales dispassionately and from a new angle. We must break the prejudices born of a long period of high salaries and take advantage of the imminent cessation of European recruitment to recast all scales in a form more consistent with what we need pay and what we can afford. The high Provincial Service pay of the earlier decades, the acquiescence of the Islington Commission in the equal pay cry and the highly culpable omission in not taking advantage of the Reforms to revise all scales, have cumulatively resulted in creating a serious situation for our national finances. A radical reform of the salary scales is a condition precedent to putting our finances on a safe basis and it is a reform which is bound to have a highly beneficial effect on our national life-economic, social and political.

TABLE I

[NOTE:—The subjoined table brings out at a glance the salient points regarding the salaries position in the different countries. Column I contains figures of per capita national income. They all relate to the post-war period. They do not, of course, all relate to the same year nor do they all represent the same degree of accuracy. The sources from which they are taken are indicated on page 43. The second column shows the figures for the average income of the urban unskilled labourer. The figures for Canada and U.S.A. are explained on page 33. The others are rough estimates based on information given above and other wage statistics. The third column represents the lowest initial salary of the junior male clerical grade. The details regarding the grades are to be found in the text. The fourth column gives the highest salary possible for a civil servant in each country. The salaries of ministers or of judges have not been taken into account. In most cases this highest salary is attached to the office of the permanent official head of a department. In South Africa it is the office of First Secretary; in U.K., Permanent Secretary; in Canada, Deputy minister; in Germany, State Secretary; in Japan, Head of Department. In U.S.A. precisely similar posts do not exist. For that country, therefore, the salary of the highest paid offices such as the Commissioner for Internal Revenue or the Director of the Bureau of the Budget has been taken. In India the obvious equivalence to the post in other countries is that of the post of the Departmental Secretary with the Government of India. The salary of that post has, therefore, been indicated in column 4 below. This has been done for presenting the comparative data accurately, even though members of the I.C.S. hold Executive Councilorships in Provincial and Imperial Governments and also hold the post of Provincial Governors.]

(all figures are annual)

	<i>National Income, Per Capita</i>	<i>Wages, urban un- skilled labour</i>	<i>Lowest salary, Govt. male adult clerk</i>	<i>Highest salary of administra- tive post</i>
South Africa—£	..	..	140	1,600
United Kingdom—£	93	100	95	3,000
Canada—\$	518	955	600	10,000
U. S. A.—\$	676	1,075	1,140	10,000
Germany—R. M.	800	1,750	1,700	22,900
Japan—Yens	218	500	480	6,500
India—Rs.	74	240	360	48,000

TABLE II

[NOTE:—The approximate equivalence in terms of rupees of the amounts in the above table have been given below. Two columns showing the approximate proportion between the salary of the highest administrative posts and the lowest clerical salary and the earnings of unskilled industrial labour have also been added.]

*Rs. ( all figures are annual. )*

	<i>National In- come, per capita</i>	<i>Wages, urban unskilled labour</i>	<i>Lowest cleri- cal salary</i>	<i>Highest admi- nistrative salary</i>	<i>Proportion between columns 2 &amp; 4</i>	<i>Proportion between columns 3 &amp; 4</i>
South Africa	..	..	1,866	21,333	..	1 : 11
United Kingdom	1,240	1,333	1,266	40,000	1 : 30	1 : 32
Canada	1,420	2,620	1,650	27,400	1 : 10	1 : 17
U. S. A.	1,850	2,950	3,125	27,400	1 : 9	1 : 9
Germany	520	1,140	1,110	14,960	1 : 13	1 : 13
Japan	295	675	650	8,800	1 : 13	1 : 14
India	74	240	360	48,000	1 : 200	1 : 133

## MEMORANDUM ON SCALES OF SALARIES\*

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 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

\* Submitted to the Central Pay Commission in November, 1946.



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, is 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 brings about a distortion of production targets also. The problems of production have therefore to be met by (1) attempting to correct inequality in distribution directly and (2) 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 con-

sumption 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 very 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

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



earners divided into 5 broad classes. Two small sub-categories of the survey data could not be properly fitted 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 and 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.

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	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
I. 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 Persons & Firms	202	5.81	66	21.15	46	11.62	7	6.48	2	0.91	—	—	323	6.99
IV. Professional Occupations	113	3.25	12	3.85	38	9.60	6	5.56	43	19.55	21	18.92	233	5.04
V. Owners of Businesses, shops, workshops, factories, etc.	663	19.07	75	24.04	140	35.35	34	31.48	83	37.73	40	36.04	1,035	22.38
<b>Total</b>	<b>3,477</b>	<b>100.00</b>	<b>312</b>	<b>100.00</b>	<b>396</b>	<b>100.00</b>	<b>108</b>	<b>100.00</b>	<b>220</b>	<b>100.00</b>	<b>111</b>	<b>100.00</b>	<b>4,624</b>	<b>100.00</b>

Source: Table No. 54, Poona-A Socio-Economic Survey, Part 1—Economic, Gokhale Institute of Politics and Economics, Poona.

## EX-COLONIAL AND NEW INCOME DIFFERENTIALS IN INDIA\*

UNDER the British rule the levels of salaries paid to British personnel in government and to all Europeans in private business were relatively very high. Also the spread between the lowest and the highest salaries paid by the Indian Government was much greater than in other countries. In the 1920's the relation was no less than 1:133 in India, as compared with 1:32 in the U.K. and only 1:14 in Germany and Japan. As long as the highest categories of employment were monopolized by the British, this had no relevance for the standards of living of Indians. However, when at last Indians began to be recruited to those higher categories, British and Indians employed in the same service shared the same salary level. Thus a tiny minority of Indians now received salaries which were related to standards obtaining in rich countries.

It might have been expected that this discrepancy would disappear after independence. But this has not been the case. The government undertook no salary-scale reform, even though all British personnel had left. To some extent war-time inflation and frequent cost-of-living allowances for junior staff had a mitigating effect. Even so, extremes in government salaries remain greater in India than in most countries of the world.

Even more important than these disparities in official salary levels are those that exist today in the private business sector. Here, we see the influence of foreign concerns operating in India or Indian concerns operating with foreign participation. Foreign concerns have been under pressure from the government to employ increasingly larger proportions of Indians. In Indian concerns with foreign participation, foreign technicians and managers play important roles, at least in the initial years. In either case, Indians and foreigners are employed on similar jobs and parity of salaries is usually maintained. But this has been to set the standards of payment to Indian personnel at levels which are determined by those of richer foreign countries. Salaries paid to foreign technicians and others are of a level required to attract them to serve in foreign, and usually less congenial, surroundings. But these salaries paid by companies employing foreigners

\* *Co-Existence*, Vol. I, No. 1, May 1964, pp. 74-76.

in turn, influence those of the highest managerial and technical personnel in the purely Indian companies, and also to some extent salaries paid by industrial organizations in the public sector.

Since independence, certain controls have prevented disparities in salaries in government service from increasing. By contrast, business expansion has been rapid, and as the number of lucrative posts has increased so salaries have moved higher. The situation was examined by the Commission on Emoluments and Conditions of Service of Central Government Employees, 1957-59.

The following extract from the Commission's report strikingly portrays the position in 1956-57 :

"The disparity ratio between the highest salaries and the lowest wages in the private sector is also far higher than in the Central Government sector, and has, moreover increased considerably since 1948-49. The table below brings this out :

Category	1948-49	1956-57
	<i>Income per annum in Rs.</i>	
I. Total emoluments of an unskilled worker:		
(a) Cotton Textiles, Bombay	999	1,185
(b) Jute Textiles, W. Bengal	702	806
II. Average post-tax salary income of the highest salary earners	77,250	286,929
III. Disparity ratio II : I (a)	77	242
II : I (b)	110	356

... And we should invite attention to the fact that we are all through this chapter referring to incomes of purely salary earners in the private sector; earnings in the other forms at the top levels of that sector are higher." (Report pp. 82-4).

If anything, the situation today is worse than that of five years ago. The picture presented above may be somewhat exaggerated through the selection, for purposes of comparison, of the very highest salaries. However, there is no doubt that the number of high-salaried posts in private business is increasing rapidly, and that the gap is widening between the industrial wage earners and the highest-paid managerial personnel.

The salaries paid by international organizations have a similar influence on levels or remuneration of the highest qualified technical and other personnel in India. The tendency is accentuated because of

the possibility, albeit limited, for members of these categories to go abroad to accept positions in more affluent countries.

Thus, at the lower level the labour market in India is overstocked, with avenues of emigration barred, and resulting remuneration very low. Yet at top levels, the supply is very limited, due to high costs of training and limited entry, while the international economy determines standards of payment.

Other elements to be taken into account are the standards of living and the expectations of businessmen as a class. Top Indian businessmen in collaborating with foreign business find themselves paying high managerial salaries, and they have come to expect that their own remuneration will be correspondingly high. They are influenced by frequent contacts with foreigners and by visits abroad. As a result, the standard of living of such businessmen in India tends to approximate the standard of living of their opposite numbers in the affluent countries. These factors in turn affect standards both in private life and in the public sector, such as are represented in entertainment, luxury restaurant and hotel accommodation, travel arrangements, and other public amenities.

Of the many possible implications two may perhaps be mentioned here. First, high salaries direct current resources towards consumption, and capital is invested in the production of luxury goods : a situation which might ordinarily be considered highly inappropriate in the case of poorer countries. Second, and even more important, is what may be called the exhibition of conspicuous injustice in distribution. On the assumption that social cohesion and solidarity are important pre-requisites of successful democratic planning for the development of poorer countries, this exhibition of distributive injustice must be considered a most adverse factor.

## THE ECONOMIC PROGRAMME OF THE CONGRESS\*

THE resolution on Fundamental Rights and the Economic Programme of the Karachi Congress is in some ways one of the most important passed at the session. It was entirely unprecedented and it attempted for the first time to indicate a definite programme of political and economic action on the part of the Indian National Congress in case it came to hold the reins of power. Its importance, however, may easily be exaggerated. For we do not believe it to be the programme of the party that is likely to be dominant in Indian politics in the near future under conditions of self-government. It is always extremely difficult to predict the future of political parties, but even so this much can be said with some certainty, that in the event of India attaining the goal of Swaraj the alignment of political parties in India will be on a basis entirely different from that existing at present. It is also fairly obvious that the basis to a very large extent of the new division of parties would be the economic interests of different classes. This being so it is impossible to imagine that the different groups now co-operating on the basis of a common platform of political action in the Congress will continue to co-operate when the motive to that co-operation ceases to exist. Both the circumstances under which the Fundamental Rights resolution came to be passed at the Karachi Congress and the general drift of the resolution support our contention. The definition of economic aims was thought to be necessary because of the presence in the Congress of younger elements impregnated with extreme socialistic thought and yet the resultant resolution is such that its character may be approved of by the most orthodox economist. It is essentially a compromise resolution with which the more radical elements in the country can never be satisfied. It clearly shows that the National Congress as at present constituted, while representing the more radical political parties in India, cannot endorse a programme of economic action which is in any way more advanced than the economic policies of the major capitalistic countries of the world.

That the resolution takes us only a little way towards socialism is, indeed, very easy to prove. The draft has been improved very consider-

\* *The Servant of India*, Vol. XIV, No. 37, September 17, 1931, pp. 446-447; No. 41, October 15, 1931, pp. 493-495.

ably and certain important omissions made good as a result of the labours of the special sub-committee which had been appointed to revise it; but even so it remains a very temperate document. A few comments on the nature of the various clauses would suffice to make this clear. The first section of the economic part of the resolution relates to labour. This contains five clauses. Of these the one giving the right to peasants and workers of forming unions to protect their interests and another declaring that labour be freed from serfdom or conditions *bordernig* on serfdom make no advance on the existing legal position. A third clause purporting to prohibit the employment of children of school going age in mines and factories follows naturally on the adoption of the programme of free and compulsory primary education. Of the two remaining clauses one deals with the position of women workers and the only special protection for them that it contemplates is the provision of adequate leave during maternity. It is surprising that only "leave" should be mentioned in this connection. The usual provision in most countries is that of a form of insurance called "maternity benefit." Or is it that the word "leave" is supposed to embrace the benefit ?

The most important clause in this section, which we have left for consideration last, consists of two parts. The first part makes a declaration to the effect that economic life must conform to be principles of justice, to the end that it may secure a "decent standard of living," the clause does not say to whom. It is presumed that it is meant for every citizen. Justice being an abstract enough conception the word may be accepted by the capitalist, socialist, communist, all alike. The securing of a decent standard of living is, on the other hand, a revolutionary conception, but as the clauses that follow make no effective provision for bringing this about that declaration also need not disturb anybody. The second part of this ambitious clause abruptly descends to the narrow realm of the industrial worker, promising him various things. Of these legislation regarding conditions and hours of work is already in existence. The important portions of this part are therefore the promise of provision by "suitable legislation" of a "living wage" and the provision of "social insurance". Of these "living wage" legislation which, we take, is meant to convey the same idea as is usually conveyed by the expression "minimum wage legislation" is the more far-reaching conception. Social insurance schemes of various types have been a prominent feature of German national policy for many decades past and recent data collected by the League of Nations have made it clear how widespread has been its adoption in most countries of the world during the last decade. It has been rightly considered that both the industries and the state should bear a part of the burden of this insurance and the adoption

of such schemes in India is considerably overdue. Minimum wage legislation on the other hand is not so universal. The only form in which such legislation finds a place on the statute books of most countries of the world is the provision of minimum wage legislation in the so called "sweated industries." But there are many countries also in which a more general type of legislation is attempted. It should be noted that such type of legislation is specially held suitable to cases where the workers are not in a position adequately to protect their own interests. On this ground the necessity for its application to a large portion of Indian industry would seem specially strong. A point worthy of note here is that the agriculturists seem to have been excluded both from insurance and minimum wage legislation in this resolution. This is certainly an unfortunate omission. A recent publication of the League of Nations shows that not only is the agricultural labour compulsorily included in most insurance schemes in the predominantly agricultural countries but also that even the small cultivator is enabled voluntarily to become a member of national insurance schemes in many instances. Further such varied experience as that of the working of the Trade Boards in the case of the wages of agricultural labour in England and of the minimum wage legislation in a country like Mexico should certainly encourage the adoption of a progressive policy with regard to the agricultural labourer in India. And it may also be noted that the recent Labour Commission has recommended the fixing of a statutory minimum wage for labour on the Assam tea plantations and that minimum wage legislation is already in operation on behalf of Indian labour on the plantations of Ceylon and Malaya. Indeed while a large part of our labour is partly industrial and partly agricultural it would seem highly desirable that minimum wage legislation if adopted should apply equally to industry and agriculture. Allowing for these reservations, there is no doubt that both the insurance and minimum wage proposals of the Congress are important steps in the right direction and their inclusion in the Congress programme is to be heartily welcomed.

The second section of the programme also containing five clauses deals with taxation and expenditure. Two of these clauses deal with expenditure. One contemplates the reduction of military expenditure to at least half of the present total and the other lays down the normal maximum salary for the future public servants at Rs. 500 p. m. No comment need be made on the clause relating to military expenditure. The salary clause on the other hand requires some consideration. This is perhaps the most radical and the most original of all the clauses in the economic programme. It has also had a more hostile reception than any of the others. Rs. 500 p. m. seems to be generally



considered as too low a maximum. This, however, is an entirely erroneous impression. If one considers the national income of India, the average earnings of the labouring classes and peasants and the average starting salary in the lower clerical grades, Rs. 500 p. m. holds to all these a relation similar to what the salary of the highest administrative post holds to the corresponding figures in most other countries. Somewhat detailed evidence with regard to this point has been already collected and published by us in a separate pamphlet (*The Salaries of Public Officials in India*).

Prof. C. N. Vakil in a recent note on the Economic Programme of the Congress puts forward two other objections. The first is that the rupee being an uncertain measure of value, it is inadvisable to fix the maximum in terms of rupees. This is a purely technical objection. It can hardly be believed that the A.I.C.C. considers the number 500 as peculiarly sacrosanct and that it would insist on sticking to it even if the prices double in the near future. The other objection of Prof. Vakil is that this maximum will have disastrous effects on the equilibrium as between the recruitment to services, professions and business. Here it is necessary to remember at the outset that incomes in trade and industry cannot be put on the same level as the incomes in services or the learned professions. For in the former influence, connections and even more than this a command over capital count for so much that the avenue to the higher income in that direction cannot be considered as even reasonably open to the majority of the educated classes.

With respect to professions we do not know on the basis of what data Prof. Vakil ventures to state that those in the professions enjoy larger incomes today. In the case of the professions it is a very common mistake to pay undue attention to the highest incomes and not to take sufficient note of the vast number of failures. The income of the legal profession, for example, in India is not to be reckoned by the very high incomes earned by a few distinguished advocates. It is rather indicated by the large mass of pleaders and lawyers in the numerous cities, district towns and taluka places, the large majority of whom, we venture to think, do not pay any income tax. Recruitment in the beginning is contingent on the average expectation of an income and even with Rs. 500 p. m. as a maximum the average expectation of income in the services will not compare unfavourably with the incomes at present obtaining in the profession; this without taking account of the fact that a lowering of service scales is bound to have an effect on the charges made by the professional classes in the country for their services. For it may be remembered that in India it has always been the service scales that have set the measure for the general level of earnings of the educated class-

es and not as elsewhere the earnings in the other occupations determining the level of service scales. Even so it may be admitted that there will be a certain amount of readjustment in the flow of recruits to government service. Services will not prove quite as attractive as they do today. But we consider that this will in no sense be a national calamity. Services are far too attractive at the present scales of pay and the emphasis on government employment needs to be considerably diminished.

The three clauses with regard to taxation deal respectively with (i) Salt duty, (ii) Death duties, (iii) Land revenue and Land tenure. The Salt duty is to be abolished. This is a step that was to be naturally expected after the prominence given to salt *satyagraha* in the national campaign of last year. Though on grounds other than sentimental this cannot be completely justified especially so long as duties on such articles as kerosene remain and the prohibition of imported cloth is contemplated by the Congress which will necessarily mean a heavy additional burden on the consumer. Death duties on a graduated scale have been contemplated by the Government of India for many years past. The Taxation Inquiry Committee has discussed the difficulties involved in their levy and proposals have been entertained many a time for their levy by provincial governments. Undoubtedly they would mean an important additional means of revenue and if steep enough and heavy enough they would also serve as a useful weapon for correcting somewhat the evil effects of large accumulations of capital in private hands.

Clause 7 in the resolution deals with land revenue and land tenure reform. The clause is somewhat clumsily worded and it is difficult to be sure as to what it means. There seem however to be two main ideas put forward. The first is to give relief to the smaller peasantry and the second to make agricultural incomes subject to an income-tax. The second measure is simple enough. It actually forms part of Sir Walter Layton's recommendations. It is a measure that will meet with almost universal approval. The relief to the smaller peasantry presents a more complicated problem. The resolution contemplates the attainment of this end by reductions of rent and revenue paid by this class. The reduction of revenue is easy for the state to effect. If government merely abolishes land revenue and decides that all agricultural incomes will be dealt with according to income-tax procedure the object will be gained. There will then be an exemption limit which may, of course, be much lower than the exemption limit in the case of non-agricultural incomes and there will be a graduated scale. Only some important results may be noted. One is that the yield of the land revenue may in this case be much lowered, and its administration considerably complicated. Further, it has often been alleged that

the introduction of an exemption limit in land revenue may actually work as an incentive towards the further sub-division of holdings. The programme on the other hand with regard to the small tenantry seems to be difficult of achievement. For though the state may graduate the levy of a tax, it could certainly not ask a land-holder to graduate the rental charge per acre according to the size of the tenant's holding. This will merely result in an unfair discrimination against those landlords whose estate is divided among the smaller tenantry and can only act as an inducement to them to evict the smaller tenants and replace them by bigger holders. Such a movement would easily defeat the object of the resolution unless it is prevented by very stringent tenancy laws. The problem of giving relief to the peasants in the zamindari tracts cannot be solved merely by rent restriction. The policy of rent regulation must be accompanied by more progressive tenancy legislation and by also affording means to the tenant of acquiring the ownership of his holding. We may note generally that this section does not contemplate anywhere the reform of the Indian income-tax which is also long overdue. An increase in the burden of the income-tax and the steepening of the graduation scales would seem to be reforms urgently called for.

The last section entitled "Economic and Social Programme" contains one clause which has an important financial bearing. This is the clause regarding the adoption of the policy of prohibition. Prohibition as the ultimate goal has always been accepted by all political parties in India. And whatever the difficulties that may militate against the enforcing of a rigid prohibition policy, there is little doubt that Indian financiers must now look forward to an ever diminishing excise revenue. Of the other clauses in this section one deals with the provision of military training to citizens and another with the relief of agricultural indebtedness and the control of usury. No definite policy with regard to the latter is put forward. Three more clauses remain. One promises a general protectionist policy to indigenous industries coupled with an entire exclusion of foreign cloth. The protectionist policy has already been adopted in some measure, but the proposal for an entire prohibition of particular imports seems unnecessarily extreme. An intelligent manipulation of tariff levels will effect in this direction whatever results it is desired to be brought about better than a rigid prohibition. Mahatma Gandhi's recent declarations in Lancashire seem however to indicate that a peremptory exclusion of foreign cloth will not be insisted on by the Congress.

The clause relating to currency and exchange policy lays down that that policy shall be controlled in the national interest. The clause as it was finally adopted by the A.I.C.C. is a great improvement on

the original Karachi draft. The original draft contemplated control so as to help Indian industries i.e. one specific class of producers. Such manipulation in the interests of particular classes is to be strongly deprecated and the A.I.C.C. has done well to delete this portion of the old clause. In the new form, however, the clause is practically meaningless. For it is presumed that the national government will manage not only the currency and exchange policy but its policy in every other sphere as well "in the national interests." Only one clause remains for consideration. This says that the "state shall own or control railways, waterways, shipping and other means of public transport." This is good so far as it goes. The State already owns the railways in India and in a great many countries does it own or control the operations of such concerns as are mentioned in the resolution. This is no dangerous step towards socialism: it is only a declaration that the Indian National Government will follow policy as regards the vital economic activities of the nation similar to that evolved in most of the advanced countries in the world today. We only hope that the wording of the resolution is not taken to mean that the state shall not control or own activities other than those enumerated. For, we strongly hold that especially in a protectionist state, state control or ownership of activities built up by state help may be highly advisable in particular cases.

This examination of the Congress programme will have made it clear that the programme is orthodox and moderate. Proposals regarding social insurance and minimum wage have been discussed in the report of the Labour Commission and that body, which could be called neither revolutionary nor socialistic, has indicated ways in which these measures regarded by it as generally desirable can slowly be introduced into practice. Maternity leave is a milder proposal than the maternity benefit actually given in certain industries by legislation in C.P. and Bombay. Death duties have now been incorporated into the financial system of many countries in the world; protectionism is a common malady and the control or ownership of key industries a well recognised practice. The Congress has for years advocated Land Revenue Reform and the solution suggested in the resolution for the tenancy problem we consider as incomplete. The only point in which the resolution marks a considerable advance over current conceptions is in the salaries maximum. But here again the Congress resolution does not suggest a maximum that is socialistic or levelling in any sense of the word. Indeed what strikes us most about the programme is its largely negative character. The clauses mostly embody proposals to remedy certain defects and remove certain grievances in the existing situation. They do not formulate a series of positive steps contemplated by the future national govern-

ment. A really attractive economic programme must put forward a vigorous national policy about the extension of social services and the activities of nation-building departments. This lack of positive proposals is most marked in the case of the agriculturists and almost nothing is said of the position of the small artisan. Our criticism of the programme does not, of course, mean that we minimise its importance. The resolution represents on the whole a sober and thoughtful attempt to indicate lines of immediate action in the future. There are some important omissions and there is little in it that is novel but most of the proposals made are on the right lines. It would be absurd to subject vague proposals of this type to any minute criticism. We cannot do this chiefly because we do not know under what conditions — financial and other — the future Swaraj Government which attempts to put them into practice will find itself. The adoption of each particular measure will be dependent on the then circumstances, political and economic. Our purpose in commenting on the programme has been mainly to show that it follows lines of economic policy already adopted in most countries of the west and that it cannot, as a whole, be called either revolutionary or socialistic.

## THE RESERVE BANK\*

### I

A LARGE growth and a growing faith in the efficacy of Central Banking is a notable post-war phenomenon born out of the financial troubles of that period. Already before the war Central Banking had attracted much attention but the universal mismanagement by Governments of their currencies during the war and post-war period and the way in which unco-ordinated credit structures were unable to withstand the storms and stresses of the times emphasised the need of an independent and centralised management of the currency and credit arrangements of each nation. And the creation of a Central Bank independent of political influence, having the absolute right of note issue and serving as a bankers' bank became the stock prescription for the remedying of financial ills.

With us in India the project of a Central Bank was not seriously considered till the year 1918. The Chamberlain Commission which held its sittings during that year had before it certain proposals, notably that of Mr. Keynes for the creation of a State Bank by a fusion of the three Presidency Banks. This Commission did not make any recommendations on the point but the creation of the Imperial Bank in 1920 may be said to owe its origin to Mr. Keynes' memorandum. The Babington Smith Committee found the currency troubles too great to be able to pay much attention to this question and it was chiefly during the sittings of the Hilton-Young Commission that the issue came suddenly and prominently before the public. It should be noted that it was entirely in the evidence taken by the Commission in England that the suggestion that an independent Central Bank should be created was put forward and that one of the most emphatic witnesses on this point was Mr. Montagu Norman, the Governor of the Bank of England. The Government of India had before this visualised the possibility of transferring the management of the note issue to the Imperial Bank, but had not thought of bringing an entirely new institution into being. The majority of the Hilton-Young Commission was impressed by the plea for a Central Bank and reported that such a Bank to be called the Reserve Bank of India should be created on the usual model of the Bankers' Banks in other

\* *The Servant of India*, Vol. XVI, No. 14, April 6, 1933, pp. 161-162.

countries. Sir Purshottamdas Thakurdas in his minute, however, expressed the opinion that it would be better to attempt to convert the Imperial Bank itself into a Central Bank. Events after the publication of the Hilton-Young Commission report moved rapidly; and Sir Basil Blackett took up energetically the work of implementing the recommendations of that Commission. The Reserve Bank and Gold Standard Bill of 1927 was drawn up mainly on the lines laid down by the Hilton-Young Commission and it was described by Sir Basil as the most important Indian measure of "financial liberalism." By this time public opinion had veered round to the idea of having a Reserve Bank and in the Assembly almost all leaders of public opinion—including Sir Purshottamdas—supported the conception. There were, however, radical differences in the points of view of Government and the Opposition and the Bill as it emerged out of the joint committee of the two Houses was entirely unacceptable to Government. For it substituted what was virtually a State Bank for a shareholders' bank and provided for a certain number of directors to be elected by the Assembly while Government was most anxious to have the directorate removed entirely from political influence. As Government was unable to suitably amend the Bill in the Assembly, it tried to introduce a new Bill in the ensuing session. This move was, however, foiled by a ruling from the Chair.

Thus India narrowly missed having a Reserve Bank in 1928 and nothing further was heard of the project for the moment until it was made a live political issue by being included in the series of financial safeguards in the second report of the Federal Structure Committee of the first Round Table Conference. The words in which the Sub-Committee expressed this provision were as follows: "The Sub-Committee recommend, with a view to ensuring confidence in the management of Indian credit and currency, that efforts should be made to establish on sure foundations and free from any political influence, as early as may be found possible, a Reserve Bank, which will be entrusted with the management of the currency and exchange" and it further added: "The Sub-Committee recognise that it may be difficult in existing conditions to set up a Reserve Bank of sufficient strength and equipped with the necessary gold and sterling reserves immediately and that, therefore, until this has been some special provisions will be found necessary to secure to the Governor-General adequate control over monetary policy and currency." In the second Round Table Conference a point specially established on the initiation of Sir Purshottamdas Thakurdas was that the creation of the Reserve Bank should be by the Indian legislature and the suggestion was also put forward that pending the creation of the Bank nothing further was required to ensure financial stability, in addition to the

normal powers of veto vesting in the Governor General, than the creation of a statutory Advisory Council so constituted as to reflect the best financial opinion of both India and London. In the case of neither of these reports was the creation of the Reserve Bank made a condition precedent to the inauguration of the Federation. With the report of the Financial Safeguards Committee of the third R.T.C., however, the aspect of this matter began to change. This Committee agreed with the recommendation made in the second report of the Federal Structure Committee, but further added that "the proposals to be submitted to Parliament should be based on the assumption that such a Reserve Bank would have been created prior to the inauguration of the Federal constitution, and recommended that steps should be taken to introduce into the Indian Legislature a Reserve Bank Bill as soon as possible." It also proceeded to lay down certain requirements which must be satisfied before the Reserve Bank could start operations with a reasonable chance of success. This, of course, was going much further than at any previous time and both Mr. Jayakar and Sir Tej Bahadur Sapru drew the attention of the Committee to it. Sir Tej put it plainly by saying, "I should not like to be a party to any scheme which contemplates that, if there is to be no Reserve Bank, there is to be no responsibility at the Centre in India." In the White Paper the situation in this respect is distinctly worse and the Reserve Bank figures prominently as a "prerequisite of a financial character to the inauguration of responsible Federal Government." The White Paper lays down that "the proposals relating to the responsibility for the finance of the Federation are based on the assumption that before the first Federal Ministry comes into being a Reserve Bank free from political influence, will have been set up by Indian legislation and be already successfully operating."

The enormous difference made in the position of the Central Bank by the report of the Committee of Financial Safeguards of the third R.T.C. is evident. At the first R.T.C. it was contemplated that certain special powers would be given to the Governor General if the Reserve Bank was not in being prior to the creation of the Federation. In the second R.T.C. an alternative suggestion of an Advisory Council was put forward. The second R.T.C. met at a time of extreme financial uncertainty and it was natural, therefore, for the delegates to think of the possibility of establishing a Reserve Bank as distant. It is noteworthy that Sir Purshottamdas suggested originally that the Reserve Bank should be specified as being set up by the Federal Legislature but as certain members objected to the word "Federal" as unnecessarily narrowing the scope of the reservation the word was dropped. The financial situation in both India and England was a good deal better at the time the third R. T. C. met than at the



time of the second R. T. C. and there is nothing in the report of the Financial Safeguards Committee or the proceedings of the R. T. C. to explain why it is thought impossible to inaugurate a Federation even with special safeguards for currency and exchange pending the creation of Reserve Bank. The only possible explanation one can find is that the British Government felt that they could persuade the Indian Legislature more easily to accept the type of Reserve Bank on which the City had set its heart if on such acceptance the inauguration of the Federation was made dependent. It has also been wickedly suggested that this is nothing more than a device to delay the coming in of the Federation indefinitely. And this suggestion finds some support in the type of conditions laid down which must be satisfactorily fulfilled if the Reserve Bank is to operate successfully.

## II

We do not, we believe, stretch the analogy too far if we find in this a close resemblance to the treatment given by the Allied nations to Germany or to the conditions laid down by the League of Nations before helping bankrupt nations which seek its assistance. The provision that Reich-Bank Act should be so modified as to make that Bank free of Government control was, in the words of a celebrated authority on Central Banks, "part and parcel of a scheme for the payment of reparations and of the financial rehabilitation of Germany, devised by foreign experts at a time when the financial policy of the German Government was suspect and had proved to be economically unsound." It is well-known that the League has evolved a technique of its own during the last decade for the work of financial reconstruction and that in this technique Central Banks occupy a very important place. The Financial Committee of the League have framed general principles which they feel should be incorporated in the constitution and guide the operations of Central Banks of issue in countries in which the League undertakes a reconstruction scheme. And the League has usually insisted on such a Central Bank being created where none existed before or the statutes of existing Central Banks being modified so as to conform to this model before financial assistance was given to the country in question. The insistence on the prior setting up of a Reserve Bank shows clearly that the British Government thinks of the future Federal Ministry in the same terms in which the Allied nations thought of Germany in 1924 or the League of the bankrupt Governments which seek its assistance. It is neither possible nor necessary to comment on this farther.

In one important respect, however, the position is even worse. For while in these other cases the Central Bank was designed as an instru-

ment of achieving budgetary equilibrium and financial reorganisation, with us evidently it is to be made to wait on these factors. The prior requirements that must be satisfied are, in the opinion of the Committee on Financial Safeguards of the third R. T. C. as follows : "In particular, that the Indian budgetary position should be assured, that the existing short-term debt, both in London and in India, should be substantially reduced, that adequate reserves should have been accumulated, and that India's normal export surplus should be restored." If we consider to what extent these conditions have been fulfilled in the case of the very large number of Central Banks that have come into existence in the various parts of the world during the post-war period we would discover that such instances are remarkably few. For in most cases the establishment of a Central Bank has been part of a scheme of financial reorganisation and currency stabilisation after both these had considerably deteriorated. Each one of the succession states of the old Austro-Hungarian Empire established Central Bank when neither the world conditions nor the internal conditions of these countries were half as favourable as the conditions today in India. The Austrian Bank was established when economic life was practically at a standstill in that country and when the conditions in all the Central European countries were daily getting worse. When in 1923 it was found that Hungary could not put her house into order without external help the League of Nations prepared and carried through a scheme of reconstruction which entailed the immediate establishment of a Central Bank but contemplated budgetary equilibrium being attained only by the year 1926. Similarly the conditions prevailing at the time of the creation of the Bank of Greece in 1927 did not at all come up to the ideal laid down by the Financial Safeguards Committee. We should not be interpreted as attaching no importance to budgetary equilibrium or to the balance of international payments. No sane man could question the necessity of maintaining these. Our whole objection lies to laying down the attainment of these ideal conditions — especially at a time like the present — as a prerequisite of the establishment of a Reserve Bank. Sir Otto Niemeyer, whose international financial standing is undisputed, was when he visited Australia in 1930 as an adviser to Government on behalf of the Bank of England also called in to report on financial and currency matters by the Government of New Zealand. Among the various recommendations he made was one for the establishment of a Central Bank. The conditions of world trade and the conditions in Australia were certainly bad enough when he made that recommendation. New Zealand as a country depending almost entirely on the export of agricultural produce finds today its balance of payments distinctly adverse. It has further been doubted whether a country of that size

really does require a Central Bank. Even so we find it following the current fashion and the New Zealand legislature discussing a Central Bank Bill in the December of last year. And as to adequate reserves what reserves are adequate ? The events of the last two years should have been enough to convince anybody of the futility of the conception that any banking reserves can be adequate. On this aspect we can think of no better comment than that of Mr. Manu Subedar : "India cannot have a Central Bank better than she can afford and the Central Bank established with such funds as are at the moment available cannot function worse than the Finance Member as currency authority and the Imperial Bank as banking authority are now functioning."

The Finance Member made in 1929 a significant statement in the Legislative Assembly on the question of the establishment of a Reserve Bank, part of which is quoted by the Central Banking Committee in its report and in which the following sentences occur. "The formation of a Central or Reserve Bank is desirable in order that India may be equipped with a mechanism for the control of currency and credit on the lines approved by modern experience. At the same time Government can only proceed subject to their being satisfied as to two conditions : first that the organization of the bank is securely settled on sound lines, and secondly, that there is a measure of general support among the representatives of public opinion for the proposals." Now that the Government has to deal with an Assembly which rarely disagrees with it and that the birth of the Federation is made dependent on the creation of a Reserve Bank the Government, we feel sure, is satisfied that the above conditions will be entirely fulfilled. Further the Finance Member has persistently claimed in his budget speech this year that he has restored budgetary equilibrium, cut down the floating debt to manageable limits and begun the process of building up reserves. In fact his elaborate justification of the policy of allowing gold exports turned essentially on the help these exports gave in maintaining India's balance of the international trade and in enabling the Finance Member to achieve all the above ends. He also talked of the almost inexhaustible stocks of gold that still lay in the country. There is thus nothing from the point of view of the Government of India to hinder the establishment of a Reserve Bank here and immediately. A draft Bill, as Sir P. Sethna pointed out at the first R. T. C., is ready in the files of Government. This Bill has been examined at least in some important respects, by the Central Banking Committee. That Committee which contained many representatives of European commerce and industry has, in its majority report, unanimously assumed that the capital of the Bank would be provided by the State and that the Bank would be under Indian control. The foreign experts that advised the Central Committee have

also made an important suggestion for extending the scope of the functions of the Reserve Bank somewhat on the model of the Java Bank. This suggestion gets further support from South African experience and is also endorsed by the Central Committee. In the majority report are also contained many minor suggestions with regard to the working of the Bank. The 1928 Bill modified in the light of these later comments should prove very generally acceptable. The controversy regarding the election of some Directors by the Assembly over which it is said the 1927 bill was wrecked (this, however, was emphatically denied by Mr Jinnah at the first R. T. C.) will not this time cause any trouble. For with at least a semblance of Central Responsibility the election of Directors by the Assembly becomes a minor issue.

### III

We may, in conclusion, thus summarise our position. It is universally agreed that India needs a Reserve Bank and that one should be established immediately. This cannot, however, mean that there is any justification for believing that an Indian Finance Minister will follow a policy more ruinous to his country and, therefore, also to his country's creditors than has hitherto been done by the British Finance Members or by the Secretary of State. It is clear, on the other hand, that our English creditors and our English rulers insist on treating the future Federation as a potentially mismanaged and bankrupt state and on full provision being made in this behalf. Even so, in delaying the creation of a Reserve Bank by laying down very difficult conditions they are not acting fairly. Perhaps, therefore, we may be permitted here to suspect a mixture of the political and the economic motives. But further even if the conditions stand as at present the Finance Member's recent claims very largely cover them. The principles of Central Banking are today very well understood and the League Financial Committee rarely takes more than two or three months completely to frame the statutes for the bank of any country. Their application to India has been thoroughly studied; a draft bill is almost ready. The rapidity, therefore, of the action that Government takes on this question and the type of institution that it seeks to create has now become one of the main tests of the bonafides of the British Cabinet and the British Government in India with respect of Indian Constitutional Reform.

## ON CONTROLS\*

A PROPER evaluation of the nature and extent of measures of control that might be required during the second five-year period may be made by relating the measures of control to the needs out of which they arise and the ends they are expected to fulfil. In this connection a number of broad categories might be indicated. Some controls may be required because it is planned to reach a certain level of savings during the plan period and it is not expected that this level would be reached without the aid of controls. Similarly, specific investment or production targets that are set out in the plan may make it necessary to control aspects of economic activity. Controls may also arise out of the desire to attain during the plan period certain social objectives, which in view of the prevailing pattern of the Institution of wealth and income could be attained only with the help of some controls. Finally, procedures framed for the financing etc. of the plan may lead to the adoption of many control measures. Briefly, these procedures may have the result of producing a state of incipient inflation during the plan period and devices, including specific types of control, may have to be used to keep this suppressed.

The attainment of an increased and increasing level of savings may be proposed in a variety of different ways or combination of ways. The State may take over into the public sector the main activities in which large surpluses arise and assure an adequate total rate through savings made in the public sector. It may through such devices as an income on ceilings and steeper income taxes combined with fairly heavy and widespread indirect taxation control the level of total consumer outlay. Because of the limitations of tax measures it may become necessary to supplement these measures by some direct controls of consumption. Control of consumption could be effected through either controlling the availability of consumer goods to consumers in general or by control of allocations of specific goods to particular groups of consumers etc. We may assume that in view of both the large administrative task involved and the unpopularity of the measures, direct rationing of commodities in common consumption like food and cloth will be avoided as far as possible. On this assumption, general consumption controls could be exercised by

\* A note written in 1955.

regulation of the production of important types of consumer goods within the country and by strict regulation of imports of consumer goods. It needs to be emphasized in this connection that while an adequate increase in the supply of consumers goods available in the country is needed for a smooth working of the plan, the attainment of the savings target makes it equally necessary that total outlay on consumer goods does not exceed a given proportion of the estimated national income. Plans and targets of internal production of the main consumer goods must be framed with this latter requirement in mind. The quantitative control of imports of consumer goods is equally important especially as they are consumed, in the main, by classes control of whose levels of consumption would be more desired. General control through targets of production and availability would be relevant chiefly for commodities like cloth, footwear etc. in whose case more detailed measures cannot be undertaken. Such control may even be fairly close and effective in exceptional commodities like *vanaspati* whose production is comparatively concentrated. Apart from what can be done in this general way, more specific regulatory measures may be desirable and possible in particular instances. In the more-advanced industrial countries one aspect of anti-cyclical measures is that of control of credit for expenditure on durable consumer goods. Limitation of such consumption expenditure may be important in India also. The durable consumer goods category is acute one and no control may be desired over the increase in demand for some of these as, for example, bicycles and recurring machines. On the other hand, the purchase by private persons of motor cars, radios etc. may be usefully controlled. The consumption of them may be more appropriately controlled through regulation of imports, through production control and tax measures. There is one important category of durable consumer goods of which more direct regulation may be both desirable and necessary. This is house construction. Allocations of certain essential types of building materials may be properly used for the purpose. Such control could fulfil two needs. On account of the peculiar pattern of distribution of income in the country the demand for house construction from the comparatively richer classes is relatively high whereas there is little building of houses catering for the needs of the poor. There is thus a cumulative worsening of the situation in all urban areas and no market forces can afford a corrective. The control of allocations of materials, like cement and steel, may be exercised fairly rigorously in this regard. This will restrict largely one important avenue of outlay on durable consumer goods by the rich and also encourage, what is also needed urgently, a wider use and research in one of local materials. Through

import control an important measure of reduction of non-essential consumer outlay may be further brought in the case of petrol.

Petrol rationing for private cases, as in war times, could save both consumer outlay and foreign exchange. Thinking along the same lines it may be enquired whether the provision through activities in the public sector of additional facilities such as of extension of air travel should not be drastically limited for the same purpose. The reasoning can be extended to such matters as standards of convenience etc. of public services or the style and equipment of public buildings. In most of these, our standards appear out of all relation to our national income. It is not true that the maintenance of high aesthetic standards or artistic traditions necessarily involves lavish outlays; and high standards of amenities offered by public service or to public servants go ill with national poverty. A bold plan need not be an extravagant plan and the need for an effectively bold plan itself makes necessary rigid economy in public consumption levels.

What has been said above relates chiefly to consumption levels of the classes that are better off. Some sumptuary regulations of wide application are also possible. Attention may be specially drawn to limitation to number at dinners etc. enforced during war time. Such regulation cannot, of course, be completely enforced. However, experience in Bombay State showed that they helped not only to make practicable the system of rationing of foodgrains but also to keep down expenditure at marriages and other ceremonies and even perhaps reduce the extent of travelling etc. undertaken on these occasions. Such regulation would reduce consumer outlay significantly and also bring home to a wide public the seriousness of the effort at planned economic development.

All the above is only illustrative. The main purpose of the itemization is to bring out the relation of the target of national savings to various types of consumption controls. Unless the attainment of the savings target is supposed to be easy most of the types of measures indicated above will have to be attempted.

Control measures related to the fulfilment of particular targets of investment and production would for the most part be more specific than those discussed above. The carrying out of the planned programme of investment etc. in the public sector would be direct responsibility of public authorities; but even for this and much more, the targets in the private sector would require a variety of detailed measures of regulation. Part of the regulation would be by way of preventing establishment or expansion of particular activity. Chiefly this would be through operations under the Regulation of Industries Act supplemented by State licensing powers, especially powers for

the licensing of processing and other establishments used in connection with the programme for the village and small scale industries sector. The latter programme may also involve placing of limits directly on the activity of individual large scale industry. The direct regulations would be supplemented by operations under capital issue control and the licensing of import of capital goods and raw materials. Total activity in an industry may also, in part, be determined by export quotas as these would determine, in some respects, internal availability of domestically produced materials. Positive action in the field of small scale and village industry would cover many aspects such as finance, technical improvement, marketing. For large scale industry measures of allocation would be of special importance. It appears that in respect of materials like cement and steel, shortages are again beginning to develop and it may be that the position in relation to railway transport will worsen with the progress of the plan. The policy regarding allocations of these essential goods and services in short supply must be related to the targets of investment and production which could not be attained without a measure of control over the allocations.

The measures discussed so far have a comparatively small bearing on agricultural production. Agricultural production will depend to some extent on schemes of technical and financial assistance and on the distribution of supplies of fertilisers and some other essential materials. The availability of transport facilities may also slightly influence the prices defined at particular times by the agricultural producer and thus affect his productive activity. However, the main determinant of agricultural production — apart from the seasons — is likely to be the relative structure of prices. The policy regarding prices — agricultural and non-agricultural — to be followed in the Second Five Year Plan was almost entirely changed during the plan period. Today, the only definitive statement is that a policy of supporting agricultural prices will be followed. The policy indicated is, however, more that of support in emergencies than of continuing operations. It appears that a reserve stock of foodgrains will be maintained and that a chain of warehouses built in connection with systems of rural credit and co-operative marketing. These may help in emergencies such as a failure of harvest or a sharp fall in price. Apart from giving a low floor to price, particularly of food grains, the policy would have no stabilizing effect on agricultural prices in general and it cannot help in maintaining a structure of price relatives between various agricultural commodities or between agricultural commodities and non-agricultural commodities as a whole.



It is highly desirable that a clear picture of the objectives and mechanism of the price policy of the Second Five Year Plan should emerge at a very early date. Government controls a small number of prices today; but the control has reference only to the commodity concerned and is not exercised in a wider context. Also government policy in other respects affects some prices notably; but the price effect does not appear to be taken into account when taking policy decisions. This appears specially to be the case in the fixation of quotas of imports and exports. The periodic fixation of these quotas causes or influences movements of prices in a large number of important commodities. This is particularly the case with commodities, the trade in which has substantial import or export aspects. Among agricultural commodities this covers a wide range such as rice, wheat, cotton, jute, oil-seeds. Not only are absolute prices affected but also relative prices within a single series may also be changed by quota policy. This, for example, is often the result of the periodic fixation of quotas of oil-seed exports on prices of oil seeds, oil and oil cake. The import quota regulations similarly cause changes in internal prices and price relations of imported produces and consumer goods.

This phenomenon of periodic liability to comparatively sudden fluctuations of prices is undesirable from the point of view of steady progress of production plans and ought to be avoided. It has other bad consequences. To the extent that attempts are made to adjust quotas after taking account of the results of the agricultural season the action has effect only long after the harvest. Any advantages of government policy are in this case available not to the agricultural producer but to the trader. Also in a general way by introducing a speculative element in the situation the policy necessarily widens the intermediaries' margins between prices obtained by the producer and those paid by the consumer. This is apart from the complaints heard of gains of speculators who are able successfully to anticipate quotas and/or obtain allocations. The solution to this problem appears to be, in the first instance, in the direction of confining general regulation of imports and exports to achieve through protective and fiscal duties or excises. It may be necessary to make somewhat detailed classification of commodity lists to make this possible. Secondly, to the extent that direct quantitative regulation of particular imports or exports is necessary this should be through action of State Trading Boards specially set up for the purpose.

In the absence of State Trading Boards it will not be possible either to avoid sudden and highly unsettling disturbances in prices and price relatives or to eliminate wasteful speculative gains accruing to particular individuals and classes which have highly undesirable political consequences. A State Board through its continuing

operations will be able to graduate and spread, appropriately through time, the needed changes upwards and downwards in prices; and it will be able to obtain for the community as a whole the profits accruing from the artificial differences created between internal and external prices through operations of the quantitative restrictions.

The above comment on existing policies of import and export quotas brings out that while only little direct regulation of prices of agricultural commodities is undertaken today, the quota policies in effect have a large influence in them; that these policies as administered today are unnecessarily disturbing and are to the advantage of neither the producer nor the consumer. As an entire abolition of quantitative restrictions on imports and exports may not be feasible during the Second Five Year Plan, operations by the State on lines that have become very common in other communities during the last fifteen years appear necessary. If State Boards are set up for the more important agricultural commodities exported, their operations could link up with the operations of a price support programme and the warehousing system and could help in maintaining a somewhat detailed structure of relative prices in agriculture.

On the industrial side there are two fields in which some operations on prices appear inevitable. Firstly, there are the products which are common to the large scale and to the village and small scale industries. The planned transformation of the village and small scale industries sector will need measures among which the maintenance of a comparatively fixed relation between prices of goods produced by the two types of industries must find a place. At the other end of the scale, it appears that basic producers' goods and materials may have to be allocated in physical terms to a significant extent in the period of the plan. A plan of physical distribution of say coal, cement and iron and steel must involve the regulation of the prices of distributed materials. All price controls exercised today or in the recent past have had relation chiefly to the demand and supply of the controlled commodity itself. And in the Planning Commission also no thought seems to be given to the problem of an integrated policy of price fixation or regulation. However, even if only the minimum necessary effort in the direction is contemplated in the Second Plan period the framework of an integrated price policy must be set up.

This discussion on price control policy stemmed from consideration of price incentives and price relatives needed for planned productive effort in agriculture. Apart from these considerations which are relevant for the total productive effort in agriculture and also for detailed crop planning, the fulfilment of the plan will require the establishment and maintenance of some broad relations. Of these, two are of special importance; these are firstly the relation between prices

of agricultural commodities and those of industrial products and secondly that between prices of basic materials and producers' goods and the prices of the more important consumer goods. A programme of support prices, warehousing and Boards operating in select fields of foreign trade together with the policy in the village and small scale industry sector and the allocation of basic materials would cover all the more essential elements in the total programme. But effort must be made from now to think out how the individual operations will work and how all of them can be brought together and co-ordinated in a definite and significant way.

It is recognised that one of the reasons why rationing of essential consumer goods could be more successfully undertaken in countries like U.K. than in India was the much greater equality in distribution of incomes in the former country. No step taken during the First Five Year Plan period seems to have reduced inequalities in the country. No special emphasis is laid in the programme of the Second Five Year Plan on the attainment of better distribution. Therefore, formation and implementation of economic policy in the Second Five Year Plan must take this factor into account. Highly unequal distribution of income in a society affects both productive effort and consumption standards. Some of the measures discussed above, such as the programme for village and small scale industries, the control of imports of consumer goods or of control of higher class housing are related to correcting, to some extent, the effect of unequal distribution on productive effort. The effects on consumption standards may be modified in a variety of ways. In the first instance, we may consider some measures which aim at making the distribution itself better. The regulation of wages of labour is one such. State interference may make the earnings of some classes of labour larger than they might have been otherwise. Such action, though important in itself, is not likely to affect today in India very large numbers. In view of the large number of small independent producers in agriculture and small scale and village industry the maintenance of fair prices and assured markets should, however, make for reducing some inequalities. Considerable progress in the same direction would be made if the Second Five Year Plan was deliberately oriented not only towards just creating more employment but towards creating much more employment for special classes in specific regions. Results of recent surveys such as the Agricultural Labour Enquiry and the Rural Credit Survey emphasize the large disparities in employment and earnings in various parts of the country. There are special classes such as the aborigines and the depressed and some types of artisans and rural labourers in certain areas whose living is specially precarious. A plan which laid considerable emphasis on afforestation,

water and soil conservation, roads and public works construction generally and provided for extra allocations to areas which were known to be backward or distressed can alleviate to some extent the results of existing inequalities.

The more usual measures for correcting inequality are those included in the phrase social insurance and social security. However, in relation to the total extent of our problem, the results of these, in the near future, are likely to be even less important than those of wage regulation. The provision of extended facilities in relation to health and education would also immediately produce only a limited impression on the situation. From the point of view of improving the standards of consumption of the poorer classes the more important parts of the programme of development are those relating to maintenance of fair prices for agricultural products, maintaining fair prices and assured markets in the small scale and village industries sector, having an appropriately constituted and distributed employment programme. To this might also be added as next in importance a programme for minimum wage regulation in organized industry and organized agriculture.

Consumption standards could be improved if with no change in the level of prices, considerable numbers among the less well-off obtained increased employment and earnings. They could also be increased if supplies of essential commodities were made available to the poor on favourable terms. Certain schemes of social welfare such as school lunches and free distribution of milk attempt this to a limited extent in specific contexts. However, it is clear that immediately such programme cannot be attempted on any large scale. Therefore, distribution of supplies of essential consumer goods is not likely to be undertaken by the State in India. However, such action may be forced on it if during the period inflationary pressures develop rapidly. In face of a rapid rise of prices uncompensated for by a corresponding general rise in earnings the standards of living of the poor are seriously threatened. The first step usually taken in such a contingency is that of attempting to control prices. However, this, by itself, in most cases, proves ineffective and resort is made to a rationed distribution of supplies. Without an inflationary situation the rationed distribution of essential supplies is unnecessary. The problems created by inequality in a non-inflating situation are best dealt with through measures which would increase employment or earnings or which would give appropriate assistance, to the extent permitted by the finances of the state, on special occasions or to particularly vulnerable classes. Even programmes of subsidy would prove unnecessarily costly if adopted on a general basis in a non-inflationary situation. In

such a situation the selective approach is the more desirable and more economic.

This leads us to a consideration of the last of the categories of circumstances mentioned initially, that of incipient inflation which has to be kept in check. With a potentially inflationary situation the transition is made from measures of control with specific objectives to a possible general regime of controls. Though the obvious system of the inflationary situation is the rise of prices in general, price control by itself cannot cope with the situation. Depending on the severity of the presence, it becomes necessary to operate controls in all directions. As the inflationary situation renders the working of the market price mechanism more and more ineffective physical controls have to come into play progressively. Physical allocations are required for the attainment of specific production targets, detailed control over foreign trade is necessary for obtaining the required supplies and maintaining the balance of payments, all types of controls over consumer outlay and consumption have to be devised as a preliminary to mopping up redundant money supply and making effective investment outlays and rationed distribution can alone keep up the minimum standards of those classes whose position is threatened by the inflationary rise of prices. The measures with specific objectives discussed in the earlier contexts thus become parts of the entire system of controls required for dealing with an incipient inflation. Operations of the specific control measures thus prove a useful preparation and safeguard if it is apprehended that an inflationary situation may develop during a given period.

Among the general preparatory measures which would prove specially useful in an inflationary situation are devices which bring the machinery of trade under control of the State. Because such control can serve a large variety of purposes. The extreme importance of State Marketing Boards, especially for important exported commodities, has been emphasized above. They will have an important part to play in a potentially inflationary situation. Attention may similarly be drawn to a possible wide extension of a state-cum-co-operative trading system in the field of small scale and village industries. The various All-India Boards set up in this field have all come to the conclusion that an important part of their work has to be that of setting up emporia and trade and distribution centres throughout the country and that a co-operative marketing system must be an essential feature of their programmes of development. A properly co-ordinated programme of work on the part of all Boards and other agencies should soon build up a state-cum-cooperative trading system having control of production and distribution over a significant part of the field of essential consumer goods in the production of which the

small scale and village industries play an important role. A combination of the warehouses and agricultural prices support programme in agriculture, with the State Marketing Boards operating in foreign trade and the state-cum-cooperative trading system in important consumer goods industries should provide a frame-work of a system of distribution and trade competent to deal with all ordinary inflationary pressures. The building up of such a system, apart from the specific objective of each part, thus becomes an important preparation for dealing with possible consequences of a large amount of deficit financing.

The somewhat elementary exposition attempted above is intended to throw some light on the problem of the co-ordination of regulating measures and on that of distinguishing between the more and the less important of such measures. Both the positive and negative types of regulating measures have been taken into account as they supplement each other. It is obvious that existing machinery for the co-ordination of regulating measures is extremely inadequate and that most of such measures are operated with only the immediate, short-term ends in view and that no overall view is taken of the entire system. It is only an organization like the Planning Commission or the Economic Committee of the Central Cabinet that is in a position to take the overall view. It is also emphasized that taking certain measures or building certain organizations and systems may help not only specific objectives but may also be necessary as part of the preparation for dealing with possible inflationary developments.

## INDIAN ECONOMIC ORGANIZATION\*

AN attempt is made in the following to set out in brief the salient features of Indian economic organization. India is a large country and has an enormous variety of natural conditions. The stage of development reached also differs widely from region to region. In the circumstances, a brief general description necessarily involves considerable, somewhat arbitrary, simplifications. Approximately 85 per cent of the population of India lives in the countryside. About three-quarters of residents in the rural areas are directly concerned with primary production; among primary production agriculture is overwhelmingly important.

The typical unit of agricultural production is the peasant family farm. Land-tenure systems vary widely from region to region, but the scale and the organizational characteristics of agricultural production are comparatively uniform. There are states in which ownership of land is concentrated to a considerable extent in the hands of a comparatively small number of persons; in other states the bulk of the land is held by cultivating-owners; and there are situations and systems lying between these two extremes. In almost all states, however, the actual cultivator operates on a comparatively small scale, chiefly with the help of family labour. The status of the cultivator-tenant, owner, etc. may differ, and the burden of rent may vary, but the organizational pattern remains the same. This characteristic differentiates India from other important types of agricultural economies. Large estates do not mean, in this country, large agricultural units worked either as feudal estates or as modern farms. They have always been parceled out among and worked by small tenantry. The abolition of landlord systems in India has thus not the same consequences for productive organization as in the countries of, say, Southern and Eastern Europe. The dominant form of capitalistic organization in agriculture — the plantation — which has become important in many underdeveloped countries during the last two centuries has also been confined to a comparatively small field of India. The plantation is the dominant form only in the cultivation of tea, coffee, and rubber; and the cultivation of these crops is highly localized. Within

\* *Economic Growth : Brazil, India, Japan*, Edited by Simon Kuznets, Wilbert E. Moore, and Joseph J. Spengler, Duke University Press, Durham, 1955, pp. 448-463.

their own regions, which are for the most part mountainous regions, unsettled previously, the plantations are the most important organizational type; outside these regions their influence in agricultural production is insignificant.

The form of tenancy does not materially affect agricultural production. Crop-sharing, which is widespread all over the country, normally means the supply by the landlord of a proportion of the working capital. But this does not lead to a larger investment of working capital resources in crop-sharing units as compared with the farming of cash tenants.

The geographical conditions are extremely varied and the circumstances in which agricultural production is carried on are equally so. At one extreme stand large, arid regions with a scanty soil surface, with meager supply of subsoil water and small and uncertain annual precipitation of rain. Agricultural production activity in these regions is highly precarious, barely profitable and confined to only a part of the year. On the other hand, there are rich alluvial tracts where the soil is highly productive, the rainfall is plentiful and certain, and where supplementary irrigation facilities make secure an appropriate supply of water throughout the year and its intensity raised to a high pitch. Among all these varying circumstances the size of the typical peasant family holding remains small; that is, as related to the supply of labour within the family available for employment on the farm. Under favourable external conditions this leads to migration, seasonal or semi-permanent, of members of peasant families. The volume and duration of migration depend chiefly on employment opportunities available to migrants. This may be casual or seasonal labour in the neighbourhood, either agricultural or non-agricultural, or seasonal or permanent employment in distant regions. Where agricultural activity is confined to a part of the year, this may be held to generate streams of annual seasonal migrations. But seasonal migration is usually the result, not of conditions in which agricultural activity is carried on, but of conditions of living and employment in the region of alternative employment. For, in most rural regions which supply migrant labour, the extent of chronic underemployment in agriculture is so large that these could supply in appropriate circumstances much larger numbers of migrants, seasonal or permanent.

The capital resources of the peasant family are correspondingly small. The stock of working capital and the resources available for capital development are both limited. India is an old, settled country with a large population. Therefore, such development of land resources as can be carried out with family labour and with the equipment of implements and draft cattle available to the average peasant



has in this country proceeded very far. Similarly, intensity of cultivation compatible with the limitation of resources is also considerable in appropriate circumstances. The technical level at which productive activity is carried on varies; but in the more settled and developed areas the traditional technique is fully exploited, and ordinarily no marked improvement could be brought without a considerable increase in the capital resources available to the peasant family.

The pattern of productive activity is shaped by the organizational type. Broadly there are three purposes which productive activity has to serve: food for the family, fodder for livestock, chiefly draft cattle, and a surplus for sale. The small size of the productive unit and the differences in terms made by the wide margins at both sale and purchase make for an emphasis on domestic production, as far as possible, to serve the first two needs. Ordinarily, even with an increase of unit size and with almost complete commercialization, production for domestic needs does not vanish though its proportionate importance decreases rapidly. This is statement of merely a common characteristic. Its manifestation will be different with differing sizes of units and different crop combinations. For example, on very small farms or among what may be called part-time farmers the need for a cash income may lead to a cash crop being grown or part of food or fodder production being sold even though the remainder is not fully sufficient for family and farm business needs. In the same way, in areas where extension of cultivation of particular cash crops is widely possible, especially at times of a relative increase in the price of these crops, cash crops may expand to the extent of making some purchase of food and fodder necessary even on a large farm. It is not often, however, that such a position is reached. The production pattern thus contains everywhere a core of self-sufficiency. The share of production included within this aspect does not come on the market and is not monetized. Another part that is non-monetized or only partly so is that in which the primary payments are made in terms of produce. The most important part of this is the payment in terms of produce, to casual or permanent labour and to artisans. Crop-sharing in the case of the smaller landlords may also be classed with this.

The structure of the agricultural labour economy is shaped by the dominance of the peasant family unit. This means that the majority of production units in most agricultural regions do not offer employment to outside labour except at times when pressure of seasonal operation makes such employment necessary. However, the distribution of the size of cultivated holdings is uneven, and only a small proportion of units in most tracts would demand the employment of agricultural labour on a more permanent basis. This would be the

more prominent the more highly commercialised and intensively developed agriculture was in any particular region. In such regions again the monetization of the larger part of the economy would have brought about a greater concentration of land operation and capitalistic agriculture, on one hand, and a permanent body of landless agricultural labour, on the other, would have emerged. Such regions would, however, be exceptional. For the larger part agricultural units employing agricultural labour through the year and families of purely landless agricultural labour would be small in numbers and the bulk of agricultural families would employ casual and seasonal agricultural labour and would be the source of supply of such labour.

Agricultural productive units as sketched above would come into contact with the outside world and with modern economy chiefly through the monetized sector of their operations. The extent of this would be defined by the extent to which the peasant producer family, in its aspect of both producer and consumer, needed to trade with the outside world and to the extent that its economic relations with outsiders made necessary dealings in money. And it may well happen that the latter aspect may in some cases be the more important. The agriculturist would have such relations chiefly with the landlord, the state, the moneylender, and the trader. Rent where it had to be paid in money, taxes such as the land revenue, the water charges, etc. and the payment of interest, etc. on the debt would all necessitate converting produce into money form. To the extent that any of these payments were inexorably timed, the sale of given volumes of produce would be enforced on the cultivator at particular times. These monetary payments, especially those in connection with debts, may also have the effect among the smaller and poorer units of monetizing an unduly large share of the economy. Many of these units find it necessary to sell a large share of total production to satisfy immediate and pressing demands at one time of the year and to buy back for consumption needs part of these sales at a later period.

Agricultural produce available for disposal would come into the hands of the producer in significant quantities only at fixed periods in the year. The requirements for making outlays both as producer and consumer would be more continuous throughout the year. Hence the need for credit. The funds for repayment would accrue chiefly through the disposal of the surplus of agricultural produce. Credit would thus be linked with the marketing of agricultural produce; and moneylending and the marketing of agricultural produce and also general trading activities would tend to be combined by one agency. In economies where the landlord holds the dominant economic position, moneylending may be connected with this class.

The smaller the scale of the peasant and the greater his ignorance and his distance from the market, the more would he be dependent on the trading-moneylending class and the greater would be the margins they would command. Apart from the scale of individual operations, the development of the transportation system of a region and the extent or demand for the product offered by the agriculturist for sale would determine the strength of position of the agricultural producer. In the extreme case of the sugar-cane producers of Bihar and the United Provinces there exists at present a guaranteed purchaser at prices fixed by Government, in the local sugar mill. In crops like cotton there are in most important cotton areas a large number of regulated markets where the producer is usually certain of obtaining a price in fair relation to current quotations on the commodity exchange. Again, in commodities like cotton and some others, agents of exporters or local manufacturers often operate in producing regions for obtaining supplies immediately after harvest. The advantage of these comparatively sensitive markets will be available only to producers who are free to sell their produce in the way they think most suitable. A wide — preferably international — market, competitive purchase, good transport facilities, and freedom to sell enable even small producers to obtain fair market prices. This entire conjuncture is, however, obtainable only in a minority of cases, and on the whole, the dependence of the producer on the trading classes at all times is considerable.

This dependence is emphasized by the fact that the processing of most products is in the hands of classes allied to the trading and moneylending classes. Formerly some aspects of processing such as husking and partly milling and decorticating were conducted by the producers themselves; too, the whole economy was more nearly self-contained. With greater commercialization and the marketing of a large portion of some crops, processing began to be divorced from agricultural production, especially after power-driven machinery was introduced for most of these processes. Consequently, today in all areas where the crop is an important commercial crop, husking and milling, ginning and pressing, hulling and decorticating are conducted in centralized units operated and owned by non-producers except in the rare instances where they are co-operatively managed. The one important instance of processing still remaining mainly in the hands of producers is that of the somewhat elaborate process of the manufacture of raw sugar from sugar-cane. The key position of processors in the disposal of produce and the fact that they are usually able to combine among themselves for determination of terms of operation weakens still further the bargaining position of the agriculturist producer.

The productive organization of rural industry had many features in common with the organization of agriculture. It was conducted essentially on a family basis and drew usually on the supply of labour of the whole family. Its capital resources were meager, it tended to be underemployed and the income yielded by it was consequently low. Attention needs to be drawn to one aspect of Indian economic organization in which it appears to differ from other similarly placed economies. The ordinary peasant household in India is not self-contained in relation to most industrial products and personal service needs. In this respect comparative self-sufficiency is the attribute not so much of the individual household as of the village community. The agriculturist aims at satisfying family and business needs by his own production so far as concerns food, fodder, and — one may add — fuel. For other products and services he depends on the specialized artisan or other families within the village community. The carpenter and the blacksmith, the potter and the cobbler, the barber and the washerman are all resident artisans entitled to a small part of the crop on the threshing floor. Most of the repair work on agricultural equipment is performed not by the agriculturist households but by the resident artisan families. In a large number of cases the artisan families would also have small cultivated holdings and would thus be part-time farmers. This would be the pattern in all the large settled plains areas in most regions of India where social life was organized in substantial village communities. In mountainous areas where isolated dwellings or hamlets were the rule households would be somewhat more self-sufficient.

The complement of artisans integrated within the village community organization would not be the same everywhere; this would be related, in particular regions, to products and services required continuously by the peasant families. Other artisan industry whose products would be demanded only occasionally or periodically would not be so evenly spread and would not be connected integrally with the organization of the village community.

From the point of view of organization, rural artisan and cottage industry may be divided into two classes. The large majority of artisans who were scattered widely over the countryside lived in close proximity to consumers of their products and services and did not face complex problems of credit and marketing. To a large extent their work was connected with maintenance and repair of equipment; in a number of instances of original production, raw material was supplied to them by customers, and they got paid mainly for wage work. Not only would the majority of rural carpenters, blacksmiths, potters, and cobblers fall within the class but also basket — and rope-makers and even oilmen may be mostly included in it. Artisans of this class

would also be most likely to be part-time farmers in many instances. Their field of operations would be limited to a village or a small group of villages and the non-monetized sector in their business would be considerable.

The other class of rural artisans, though located in rural areas, would face problems of productive organization similar to those of traditional urban handicraft. The most numerous among these would be weavers of all kinds. This class of artisan or handicraft industry — rural and urban — would be dependent on the trader both for supply of raw material and sale of product and would need credit for carrying stock and for sustenance during the average length of the period of production. This credit would be almost invariably obtained from the trader at either the one or the other end, except in the not unusual cases where both ends of trading would be concentrated in the same class of trader. These artisan units would be even more dependent on the trading intermediaries than the peasant agricultural families, for there would be no element of self-containedness in their economy. In this class also transition would be made from organization on the family basis to the basis of a workshop; there would then emerge capitalistic owning of equipment and the employment of artisans on wage work away from their homes. Even when this capitalistic form of organization emerged, most of the artisans and handicrafts industries operated as long as it was traditional, within specially circumscribed limits.

These limits were set by technical considerations. In this respect the position of Indian artisan industry differed from that of Indian agriculture. At least as far as the domestic market was concerned Indian agriculture was not faced with competition from production which was the result of superior technique of agricultural units either within the country or outside it and, barring the notable case of indigo, domestic production of particular agricultural products had not been affected by technical industrial advance. Traditional Indian industry, on the other hand, had faced for a century or more, and continued to face, a market which was continuously shrinking at a varying pace as the result of increasing variety and cheapness of machine products. The continuous pressure of the competition of machine industry had compelled traditional Indian industry to adapt its methods, readjust its stages, and limit the variety of its products; but whatever the equilibrium reached at any time by these processes, it was liable to be upset afresh by further extension of the field of machine products, forcing traditional industry to further limitations and fresh adaptation. The survival within given limits of the traditional industry was itself dependent on taking partial advantage of modern industrial technique. Thus the weaver used machine-spun

yarn; the metal worker, machine-produced metal sheets; and the leather worker for the major part, leather produced in modern tanneries. And where improvements for strengthening the competitive position of traditional industry were proposed, these involved taking further advantage of modern technique. Such were proposals for setting up central reeling, winding, or sizing and warping plants for handloom weavers or for improved types of bullock-driven oilmills fitted with ball-bearing.

The most important result of these conditions was that traditional industry, whether conducted on the basis of the family or of the workshop unit, suffered continuously from underemployment or unemployment. The underemployment suffered by peasant agriculture was the result of limited land resources and a growing peasant population, giving a small and a diminishing holding per family unit. The underemployment in artisan industry was the result of a diminishing field of demand for the products of that industry. In both cases the situation was revealed in the low income per worker; all calculations indicated that the average income of the small scale artisan industry unit in India was as low as the average income of the peasant agricultural unit.

The Industrial Revolution affected Indian agriculture primarily through increasing commercialization and monetization of agricultural economy. The first impact was through the increased demand created for agricultural products like cotton. The transport system in regions where these products could be grown was rapidly developed, and the incentive of a large money income led to extension of cultivation of particular crops in these regions. Beginning with few crops and regions the movement became, in time, widespread. As pointed out above increased commercialization or monetization did not essentially change the unit or organization of productive activity. It did not also materially influence technique. Some new crops were introduced, the varieties in many were improved, in particular regions a new implement like the iron plough made progress; but there was no technical revolution. The most important change was in the relative economic strength of the landlord, trading, and moneylending classes. The disappearance of the older political and social regulations and the establishment of the British judicial system strengthened the position of all these classes vis-a-vis the agriculturist producer and affected correspondingly the distribution of the increased incomes due to the commercialization of agriculture. During the last three decades legislative regulation has greatly undermined, in a number of regions, the position of the landowning classes. However, in spite of seeming policies to the contrary, the position of the trading and moneylending classes is as strong as ever, and they continue to derive the greatest

benefits from every improvement in the terms of trade of agriculture.

The nature of the impact on traditional industry has been already indicated. The first influence was the increasing imports of products of machine industry. This led, in course of time, to the disappearance of many old handicrafts, urban and rural, and continuous narrowing of the field for most others. The efforts at survival of these led to many adjustments in production and adaptations in technique.

For the impact of foreign influences the initial process was the opening up of the country. The most important aspect of this was the construction of a railway system connecting the main ports with important agricultural regions. This was done by British capital either private or borrowed by the Government. At the same time the road system was developed, and improved types of bullock carts were introduced. Thus within a few decades a revolution from the older system of pack-animal transport for internal trade was brought about. The main immediate effects of the development of this transport system were the distribution of imported machine-made goods throughout the country and the export of important raw products in increasing quantities. Indian traders participated from early stage in the distribution of imports and the collection of raw produce for exports; the foreign side of the trade was throughout the nineteenth century in European hands. Ancillary to trading activities were the credit institutions of the modern type, especially banks, mostly in the chief ports, established from the early days by the British. The first excursions in modern production activity were plantations—tea and coffee. In connection with the export of agricultural products certain processing activities were begun. Then followed exploitation of minerals and lastly manufacturing industry. Indians played almost no part in the nineteenth century in the development of plantations or mining. However, together with internal trade, from the start Indian trading communities undertook processing activity in a large measure. One important feature of the development of industry in India was that in Western India, with Bombay as the nucleus, manufacturing industry developed in Indian hands from the very beginning. The chief reason for this seems to have been the presence of old established financial and trading houses and communities in Gujarat, Kathiawar, and Kutch which were ready to take advantage of the new opportunities. As a result, the cotton industry, which developed chiefly in Western India, was always predominantly in Indian hands.

Till World War I the policy of British Government in India was dominated by somewhat peculiar "liberal" concepts which led to imposing of a counterbalancing excise on Indian cotton manufactures, the moment a small revenue duty was imposed on imports of British cloth and to the banning of even the establishment of an Industries

Department by the Government of a province. There were many other difficulties such as those in obtaining prospecting licenses, etc. in the way of progress of modern business in Indian hands. At the beginning of World War I, economic activity of the modern type was very limited in India. Manufacturing industry was represented chiefly by the cotton and jute textile industries, plantations chiefly by tea and, and only to a very small extent, by coffee, mining by coal begun chiefly by and for railways and general engineering chiefly by railway workshops. There was also the processing and a small number of minor industries. All these except the cotton textile industry and processing were predominantly British owned and managed. Modern banking was represented by the Presidency Banks of British origin and branches of foreign banks; insurance was conducted mostly by foreign companies and coastal shipping by steamers was carried on mostly by British firms of either Indian or British registration.

During the first decade of the twentieth century Indian banks and insurance companies were first established and some change in policy of the state was brought about after World War I. Modern business in Indian hands steadily increased in volume and diversity during the interwar years. The Indian beginnings in each line were usually with the smaller scale operations; the British still continued to do the pioneering in most new fields. An important new development during this period was establishment of subsidiaries by important international groups or units; this was part of a world-wide movement. Concerns like the Imperial Chemical, Unilevers, Dunlop (tires), Westinghouse Electric, General Motors, etc. established either completely owned subsidiaries or allied concerns in collaboration with Indian capital. During the interwar years activity of British and other foreign business interests did not recede. They continued to hold their main developed positions in the older fields and initiated many new ventures. However, Indian business grew at a much more rapid pace; hence its proportionate share had become substantial in most fields on the eve of World War II. Apart from the older fields of jute manufacture and coal mining and plantations where Indians obtained significant shares, they made special headway in new lines such as iron and steel, hydroelectricity, cement, and sugar. Their growth in banking and insurance was vigorous; they began to participate in coastal shipping and took a substantial direct share in foreign trade. The number of stock exchanges in 1914 was three; of these Europeans dominated only the Calcutta Exchange. During interwar years stock-exchange business, mostly in Indian hands, grew in a large measure. And in all important centers in the country a number of commodity exchanges, in which the speculative element was important, also sprang up.



A more radical change in the situation came about in the forties as accompaniment to the withdrawal of British political power. Many Indian capitalist groups made large gains during wartime and were willing to offer favourable terms for the acquisition of British interests in all types of business. The somewhat uncertain future induced many British businessmen to seize the opportunity, and there was fairly large-scale transference of ownership and management from British to Indian hands. It is, however, possible to exaggerate the total effects of this transference. Details regarding transference of ownership are difficult to ascertain. However, British interests still continue to control the major portion of the jute, coal, and tea-plantation industry and have large and important units in most other manufactures. The activities of foreign banks and insurance and shipping companies continue to be important, and the sphere of operation of subsidiaries or Indian collaborators of the dominant international units or groups is not decreasing.

The existing structure of Indian economy contains within itself a large number of divergent elements. In each aspect it has, in particular, an important residue of pre-Industrial Revolution forms and usually also an important element of the most advanced industrial technique and organization. In transport, for example, side by side with the aeroplane, steamship, railways and mechanical road transport, there exists country craft and bullock carts; and the share of both these latter continues to be very considerable. In finance and banking the indigenous system had been well developed in pre-British times for the conduct and finance of an extensive long-distance internal trade; money changing and a system of trade and financial bills were fully operative. With the extension of trade in agricultural products a connection had been established between urban indigenous banking and traders and agents in rural areas. Today there is in the country, a modern monetary and banking system; there is a central monetary and banking authority in the Reserve Bank of India; and the Imperial Bank, whose growth has been state-sponsored, has an intermediate, somewhat anomalous position; the finance of international trade is still largely in the hands of branches of foreign banks, and within the country banking has developed in the direction of the concentration of deposits and business in the hands of a small number of giant concerns with a wide-spread network of branches. Even so the banking system has not reached the smaller centers of trade and the ill-defined policy of Government towards co-operative forms has not enabled co-operative marketing, processing, and banking organization to cover any substantial part of the field. The primary field of trading and finance still continues to be occupied, therefore, by surviving parts of the older system. The relation between the two

systems is, however, not well articulated; and this makes for difficulty in proper regulation, and in the implementation of positive policy.

The development of modern industry has been on the usual lines of extension, mainly in textile and other consumer-goods industries such as sugar and vegetable oils. Because of specially favourable conditions and of tariff protection an important iron and steel industry and a cement manufacture have been established. Heavy chemicals, production of machinery, electric equipment, and other capital-goods industries are still in their infancy. The future progress is dependent on planned effort, whose direction and extent are, however, yet unclear. Today, though industrial production is much more diverse than it was two decades ago, its total extent is small in relation to size and requirements of the country. Employment afforded by modern industry is very small; the vast bulk of industrial employment is still in other forms. The total proportion of urban population — approximately 15 per cent — is itself an index of underdevelopment. Apart from modern large industry, towns afford employment in a large number of miscellaneous industries such as *bidi* or country cigarettes, bakeries or flour mills, or various branches of building trades; they also give occasion for a considerable body of modern types of workshop activity for repair, maintenance, etc. The main industrial employment, however, still comes from the traditional artisan industry of the types described above. In special instances new intermediate forms of industry such as the power-loom industry have arisen; but they are confined to few industries and localities and are not numerically important. Between the two fields of traditional and modern industry there is, however, little integration. Two types of rationalized arrangements have, for example, been reported from countries like Japan. One relates to the division of markets between the two types of industry and the other is the accommodation of traditional skill, cheap human labour, and domestic working by division of production by processes some of which are allotted to domestic industry in the structure of modern industry. Intelligent action on either line is not evident in India; hence the haphazardness of the process of transition and its associated social and economic costs are both enhanced.

In the early stages of industrial development, capital and management as well as technical personnel were all foreign. The displacement of foreign influence has come about in all lines; and today, excepting a small number of highly specialized experts, technical personnel is normally Indian. There are no special difficulties in the way of recruitment or training or in bringing about an adequate increase in the supply of such personnel. Experience during war also shows that, when required, the minimum technical training of industrial labour even for munitions factories can be accomplished

rapidly through intensive methods. The strength of trade unions in India is also not considerable and unless backed by state and legislative support they would, in the large majority of cases, find it difficult to stand up against employers and their associations. The total potential supply of industrial labour is very large indeed. The main difficulty in the way of its proper utilization seems to be the conditions of living and employment in the main centers of industry. The important point to notice in this connection is the heavy concentration of modern industry in India in particular centers and regions.

The initial development of the transport system was such as to lead to a concentration of modern business activity in the main ports. First developments in manufacturing industry also took place chiefly in the port areas. With later growth concentration in the ports, especially Calcutta and Bombay, has become particularly intense, and within the other centres in the country there has been an equal tendency to concentration and overdevelopment. This means that not only are there a small number of centres of modern industry but also that they are unevenly distributed; the economic life of large regions is thus practically unaffected by forces of industrialization. It also means that the social problems in the industrial centres are specially acute. Housing conditions are very bad, and family living is practically impossible for the bulk of industrial labour in most industrial concentrations. There is an entire absence of social-security services such as sickness or unemployment insurance or old-age pensions; this further makes it impossible to build up a permanently settled industrial labour force even in the largest cities. Illhealth, instability, unnecessarily large and frequent movements of labour between the cities and rural areas of origin are natural consequences.

Another feature of the development of modern business is the concentration of trading and entrepreneurial activity in comparatively small sections of the total population. Because of the dominance of caste in Indian social life there has always been a high specialization of occupational distribution. The trading and financial castes have been always highly urbanized and have rarely undertaken directly agricultural or handicraft productive activity. However, it is these communities that had the resources and acquaintance with business technique required to venture in fields opened by modern business. A small number of these castes, therefore, chiefly supplied and continue to supply, in the main, those who occupy the field not only in trading and finance but also the entrepreneurial role in modern manufacturing activity. Caste and community bonds help to maintain and accumulate strength gathered in particular fields and also the extension of activities to others. As pointed out above, the crucial economic position in relation to agriculturists and artisan industry is also

occupied by members of these communities. Members of the industrial labour force and the technical personnel usually belong to entirely different sets of communities.

The Indian business castes have been habitually traders, financiers, and moneylenders. The demarcation between trade and finance was never sharp in India, and a large number of individuals and firms combined both functions. Because of the fairly rigid association of occupations with caste, none of these castes have traditionally engaged in what might be termed direct productive activity. They have always been highly urbanized, and their contact with agricultural activity has been confined to moneylending and trading. They have also not been directly engaged in handicraft or artisan activity. They traded in the raw materials required and the finished goods produced by artisans, and they might lend money to artisans or, perhaps, finance the whole field of activity in particular handicrafts. In the last case they would take on the entrepreneurial role; but this would not involve any direct participation in productive processes or activities, which would be left entirely in the hands of members of the traditional artisan castes.

Parsis alone among the important Indian business communities had a background which was in marked contrast to this. In pre-British times they had little share in banking or finance and were engaged to a considerable extent in both artisan industry and agriculture. Their entry into trade chiefly followed on their association with the British, and it is noteworthy that their first entry into modern industry, in Bombay City at the beginning of the nineteenth century, stemmed out of their initial employment as master carpenters in the shipyards by the British. The Parsis had the advantage of not being fettered by any of the numerous taboos and prohibitions associated with members of Hindu castes, and they adapted themselves quickly to new conditions after the advent of the British. They were employed largely as agents for supply and other needs by the British and were among the first Indians to enter modern industry.

Others who followed have mainly belonged to the traditional Indian moneylending, trading, and financing classes. The earliest among these were trading and financing classes from Gujarat. Gujarat cities were known for many handicraft industries; and Gujarat had, always perhaps, been one of the most urbanized regions in India. In agriculture also Gujarat was one of the richest and comparatively one of the least overpopulated tracts. The spread of activities of business communities from Gujarat in the modern field within their home region, in Bombay City, and in special fields all over the country has therefore been large. In a similar manner, trading and financing communities from among other parts of India entered modern business

and industry in successive stages. To a small extent members of new professional classes which arose under the British entered this field, specially in the first decade of this century during the *Swadeshi* movement and after. They have, however, not yet effectively occupied a large part of the field of modern business.

At the present moment the most dominant single class in Indian business is that of Marwaris. These have been comparative late comers into the field of modern industry. The term "Marwaris" usually includes Jain and Hindu Bania communities originating in parts of the geographic area called Rajaputana or Rajasthan. The Rajaputana region is mostly arid and has not been able to support a flourishing agriculture or a large population. Also it does not lie on important international or internal trade routes. The economic activities for which Marwari communities are noted thus take place almost entirely outside the home region of these communities. Though they are found specially concentrated in certain regions, the Marwaris are more generally spread over the whole country than the Gujaratis or any other group of business communities. Another important fact regarding them is the part played by them as rural moneylenders in many regions of India. Members of other groups of business communities are usually not found as village moneylenders outside their home region. In most parts of India whenever there is an important alien element in rural moneylending this is usually that of the Marwaris. Some decades ago the chief centre of Marwari activity in modern business was Calcutta. Since 1914 their share in modern business in Northern, Central, and Western India has rapidly increased; and they have recently made considerable headway even in Bombay City.

The differing traditions and backgrounds of different sections of Indian businessmen are important because they continue largely to mould the attitude and behaviour of their members in the conduct of modern industry and trade.

The bias towards financial manipulation rather than production performance has been greatly accentuated by the general prevalence of the "managing agency" system. British companies who pioneered industrial and economic development in India on modern lines during the nineteenth century were usually formed and incorporated in England while their actual business was carried on in India. In the then prevailing conditions of transport and communication it was impossible for a British company directly to conduct this business. In the circumstances, there arose a practice by which British firms in India having British personnel continuously residing in the country undertook the actual conduct of the business in India on behalf of British companies. For this they were paid a commission and an allowance. This arrangement was called a managing agency, and in time the

important British firms in India — chief centre was Calcutta — came to hold managing agencies of a number of companies and in various business. It also happened that initiative for floating British companies for particular projects was taken by the managing agency firms themselves. In this case the prospectus of the company would itself state who the managing agents of the company were intended to be, and the reputation of the agency firm would help the promotion of the company. The institution of managing agents thus arose out of a peculiar situation. When Indians and Indian companies entered modern business, the institution was naturally adopted from the British in India. In the early days when the capital market was undeveloped and Indian personnel experienced in managing modern business limited, the agency system had some justification, even though the business and the company were not separated by large distances. Also, in the days before the growth of modern banking, Indian managing agents, who were in origin mostly financing or trading firms, were useful in the supply of working capital to industry. Today the situation has changed completely and it is no more difficult for a company in India than in the United Kingdom to manage its business through a manager or a managing director. But the managing agency system is by now strongly entrenched, and it has in recent years served as a device by which rising financial groups have brought under their control established companies in a variety of industries and trades. Legislation was passed in the thirties which put a term — renewable, of course — to all managing agency agreements and which indicated a basis on which commissions might be determined. Events of the last decade show that this legislation has not much effect. Fresh legislation is at present under contemplation, but is encountering much opposition.

This feature of the situation gives a very peculiar turn to Indian developments. It helps to retain control of the productive organization primarily in the hands of financiers. And it leads to agglomerations or combines of a peculiar type. The trend in India is not, as elsewhere, for either horizontal or vertical combines round a central productive activity. Instead, there arise, because of the operation of the managing agency, large financial combines with a very mixed composition, since the link between the various members in the group has not been technical production or trading considerations but only financial opportunity. It has been calculated that towards the end of World War II the seven biggest managing agencies in India (four of which were British controlled) gave employment to more than 7 per cent of the total employed persons in modern plantation and manufacturing concerns in India and that the corresponding percentage for the first twenty was more than 14. It will be realized that concentration of this

type made action as pressure groups much more effective than when the sphere of individual combines was confined to particular spheres of economic activity. The effect was intensified by the control by many of the biggest managing agencies of banks, insurance companies, and also newspapers.

Another feature of the Indian situation which helps concentration of economic power is that no legislation in restraint of monopoly has even been enacted or even contemplated in India. Not only are there no laws comparable to the antitrust laws of the U.S.A., but even nothing on the pattern of the postwar antimonopoly legislation of the United Kingdom has been thought of. As a matter of fact, government has found it convenient to deal with trade and industrial associations, has encouraged their formation, and has sometimes given them legislative recognition in such matters as price-fixing procedures. This has given an impetus to the formation of producer and trader associations in each important field of modern business, and the more influential of these have freely indulged in price-maintenance and price-raising activities.

## REGULATION OF CREDIT BY THE RESERVE BANK OF INDIA AND ITS EFFECTIVENESS\*

### I

EFFECTIVENESS of monetary policy is closely related to the degree of integration of the economy and the extent to which commercial banks are the only or main source of credit. Modern commercial banks in India began as financial counterparts of modern business, i.e. English business in the larger Indian ports and cities. At this time there existed within the country a well-developed indigenous financial system. Since the beginning of the 20th century modern commercial banking began to play a progressively important part in Indian business. Even so, the Central Banking Enquiry Committee (1931) noted that: "In India there are two money markets, namely, the Indian money-market or the bazar, and the market controlled by banking institutions working on western lines."

The indigenous system had two main divisions: (1) The rural moneylending-trading system and (2) the urban financial system. The latter was originally concerned with even such matters as revenue farming and finance of governments. However, its main residual function in the 19th century was the finance of internal trade. It also played considerable part in finance of industrial growth notably in centres like Ahmedabad. Since 1940 the movement towards transformation of the older types of indigenous banking establishments into commercial banks has been rapid and an urban indigenous financial system which functions independently and has considerable independent sources of finance may be said no longer to exist. Ordinarily large urban modern Indian business may now be taken to be fairly well integrated on its financial side and to be dependent for working funds essentially on commercial banks. An element of non-integration as between the activities of the larger and the smaller businesses may still exist. This is to the extent that smaller businesses cannot yet always have recourse to the banks and have to seek services of other financial intermediaries. Elements like the Multani Shroffs with part independent financial resources continue to operate in the market, though on a relatively diminishing scale. However, these financial

\* *Artha Vijnana*, Vol. 5, No. 1, March 1963, pp. 1-14.



intermediaries usually draw, at least a part of their supplies from the banking system.

A new disturbing factor has, at the same time, emerged. This is what is commonly termed "Black market money". These are accumulated gains largely of illegal transactions which cannot be brought into books or into bank accounts. No attempt has been made to gauge the extent of this but its volume is said to be considerable. The smuggled imports of gold into the country, often put at a figure of Rs. 40 crores per annum, are financed presumably outside the banking system and the gains from the imports are for the most part also held outside. The extent of the black money market is also believed to have intimate connection with the extent of the evasion of income tax. This source of finance is available mostly for speculative transactions and its existence would reduce the effectiveness of monetary control.

Commercial banking never got connected with productive activity in rural areas excepting with larger organized business such as that of plantations. The difficulties are two-fold: one is connected with the spread of the location of banks and the other with the nature of agricultural production credit and the risks to which it is subject. It may be taken for granted that future developments will be in the direction of growth of a co-operative banking system to serve rural needs. During the last decade the Reserve Bank of India has become the major source of finance for the growing co-operative banking system and to the extent that agricultural production and marketing are brought within the co-operative system their control by the central monetary authority will be facilitated. However, the position today is that except in a few states agricultural production and marketing are, for the major part, financed by the rural moneylending and trading system.

The modern banking system has always been connected with the movement of agricultural produce to ports for export. Large concern with this activity gave Indian banking its traditional markedly seasonal character. In course of time the activities of the banks extended to internal movements of commercial crops. They came to play an important part in the finance of purchase of industrial raw materials by processors and manufacturers and provided finance, in some measure, to large wholesalers also. It is difficult to indicate the extent to which finance by commercial banks touches the moneylender-trader system. Some light has been thrown on this only by the All-India Rural Credit Survey. The findings of the survey were that among both rural and urban moneylenders only a minority depended on outside sources for the funds required in their business. This proportion was somewhat larger in the case of urban moneylenders than in those of rural moneylenders. For both rural and urban money-

lenders the overwhelmingly large source of outside funds was other moneylenders. In a small number of highly commercialized areas only, did urban moneylenders borrow to a significant extent from commercial banks. The majority of rural traders reported having to borrow from outside sources. In their case commercial banks and moneylenders were roughly equal in importance as sources of funds. It thus appears that the moneylender-trader system which is the important operative system in agricultural production and rural trade is to a large extent independent and autonomous.

By and large, consumer finance both urban and rural is outside the commercial banking system.

Considerable progress has undoubtedly been made in recent years with the extension of the scope of the commercial banking system and with its integration. The continued degree of non-integration is indicated by the non-availability of bank credit over large areas and for certain types of activities and by notable differences between lending rates paid for financial accommodation by different types of customers and the large spread within the banking system itself. Some progress has been made with narrowing the spread. The very low rates which were charged to some favoured parties till 1955-56 no longer obtain, and a number of steps have been recently taken which are expected to help the most disadvantaged classes of borrowers. Special efforts made by the State Bank of India to extend credit to small industry and the Reserve Bank scheme of guarantee in this behalf are examples. The impact of these measures is yet negligible and ultimately the solution will lie in developments which provide effective banking service to the small man and in the out of way localities.

## II

The monetary and credit situation in India has changed greatly since 1950-51. Bank credit has steadily assumed greater importance. In 1951-52 currency with the public amounted to Rs. 1,213 crores while the aggregate deposits of banks were Rs. 859 crores and total bank credit stood at Rs. 547 crores. The corresponding figures for 1961-62 were (in crores) Rs. 2,123, Rs. 1,808 and Rs. 1,279. The trend is a continuing one. Bank credit is today much more intimately connected with the operation of the economy and the need for controlling it is more urgent and the problems presented by attempts at control have become much more complex. From 1935 to 1951 the Reserve Bank rate had remained unchanged at 3 per cent. In November 1951 this was changed to  $3\frac{1}{2}$  per cent and simultaneously a change was brought about in Bank's policy relating to purchase of government securities. As part of the then prevailing policy of keeping the rate

of interest on government borrowing low it was the normal practice of the Reserve Bank to buy government securities offered to it for sale at the market rate. The practice served the additional purpose of enabling commercial banks to provide themselves with funds during the busy season by selling government securities to the Reserve Bank. With the raising of the bank rate to 3½ per cent this practice was given up, though the banks were told that they could borrow from the Reserve Bank on the pledge of government securities. The change in practice was needed to enforce the raising of the rate. Logically, this also led to the devising of the Bill Market Scheme by the Reserve Bank of India. At this stage the Reserve Bank had still to pay attention to the classic monetary problem of the Indian economy for the first half of the 20th century, that of adjusting the supply of money to the changing requirements of the busy and slack seasons. A variety of factors such as the slump in the international price level, good agricultural seasons, modest government deficits and the large sterling balances combined to create a situation in which further developments in Bank policy were, for some years, rendered unnecessary. During the Second Five Year Plan period, however, the situation changed completely and there have been correspondingly rapid developments in Bank policy.

The general preoccupation with regulatory measures leads usually to a disregard of the more positive side of the action of the central bank or of the state. In an underdeveloped economy positive action is, however, of very great importance. Such economies are not fully monetised and the credit and banking structure in them is neither well organized nor properly integrated; also, in many parts the structure operates inefficiently. It is a condition precedent of effective regulation and of meaningful implementation of monetary policy that these structural and organizational defects be speedily removed. During the last ten years a great deal has been done in India in this direction. The most important steps taken were (i) the creation of an integrated commercial banking frame with branches all over the country in the State Bank of India and its subsidiaries and (ii) formulation and implementation of a policy for the rapid activation and extension of co-operative organizations in rural areas. Both these have greatly helped the process of integration of the monetary and credit system. The continuous inspection of commercial banks and the powers of licensing were used by the Reserve Bank so as to increase the efficiency and economic operation of the banking system. Recent steps regarding compulsory margins and deposit insurance scheme are intended to serve the same objects. However, Reserve Bank policy in relation to permitting the opening of branches by commercial banks has apparently not been yet firmly settled.

During the Second Five Year Plan period the regulatory policy of the Reserve Bank was specially rapidly developed during two periods of inflationary pressures. The first was between March 1956 and July 1957 and the second between October 1959 and October 1960. During the first period, the bank rate was increased from  $3\frac{1}{2}$  to 4 per cent after some preliminary moves, the selective credit controls were initiated and the Bank began the practice of issuing circulars advising limitation of the volume of credit. During the second period the Reserve Bank used, for the first time, its power to increase the statutory reserve requirements of the scheduled banks; it directed all commercial banks to raise their rates of interest by an average of half per cent and imposed a minimum rate on all loans of commercial banks; it also introduced a quota and slab system according to which the banks were able to obtain only a part of their additional requirements of credit at the bank rate from the Reserve Bank.

The series of selective credit controls which have been frequently brought into operation and greatly elaborated since 1956 represent the attempt at restricting supply of credit in particular directions. Except for the restriction imposed during September 1956 and February 1957 on credit limits against cotton textiles, control of credit against commodities has been confined to product of agriculture, mainly foodgrains, and sugar. Manufacturers of textiles, sugar and *vanaspati* have been specifically exempted from the operation of these controls. Selective credit controls thus apply essentially to agricultural trading credit. However, in operating the controls the Reserve Bank has shown itself sensitive to representations regarding supply of normal requirements of credit of traders. The limit on clean advances had the intention of preventing the by-passing of selective credit controls through the changing of loans against commodities into clean advances. The selective credit controls imposed against advances on the security of shares and on credits for 'badla' transactions were obviously meant for checking speculation in stocks and shares. Selective credit controls may thus be interpreted as measures intended against speculators, and as particularly meant to restrict supply of credit to hoarders and speculators at times when prices of agricultural products appear to be under pressure.

The logic behind the policy is apparent enough. To operate a plan of development, it is necessary to maintain an even flow of supply of money and credit at reasonable cost to all normal production, trading, etc. activities. Therefore, the Bank must be in a position to discriminate in its action i.e. to be able to deny bank credit or raise its cost exorbitantly only to those activities which do not help growth and which endanger stability of the internal price level. Most of such action is labelled as speculative.

The efficacy of bank action in relation to control of speculation must be considered highly doubtful. The reasons for this are two-fold. In the first instance, bank credit is not the only source of funds for speculative activity in India and the history of the last five years does not indicate that the control of bank credit by itself has very significantly checked speculation. The largest share of trading advances secured against agricultural commodities is taken up by cotton. Government have had directly to control cotton prices during the last decade. Recent experience in jute has also led to direct action in relation to jute prices and trading. Excepting for rice in some states, bank credit is unimportant for the trade in foodgrains, and non-effectiveness of selective credit controls in this regard is emphasized by the need felt to elaborate the provisions of control of credit in relation to rice continuously and even to discriminate in their operation between surplus and deficit states.

Apart from the inability to control effectively the supply of funds for speculation bank policy is unable to act on the other important elements in the situation which feed speculation. For example, if traders confidently expect a rise in the prices of some or all commodities because of some aspect of Government policy, raising the cost of credit to them marginally (it can hardly be more) cannot act as a real restraint. Also, if government taxation policy encourages speculative activity in shares, Bank action is unlikely to be effective in this regard. As a general and mild measure of restraint and specially for giving a warning, selective credit controls may have relevance; but for the major preventive or corrective measures against speculation government must act through its economic or fiscal policy or through the direct powers to regulate the stock and commodity markets.

The Reserve Bank has acted in two ways in relation to control of the total volume of credit. One has been that of asking banks generally to exercise restraints in granting credit and sometimes indicating the extent to which it was thought desirable that they should bring down credit during the slack season. This has been called "moral sausion". It is difficult to assess the effectiveness of this approach. "Moral sausion" directives were issued in the slack seasons of 1957, 1959 and 1960. The actual course of credit activity during the three periods is seen to have been mainly determined by other conditions and to reveal little influence of bank directives. At the same time it should be noted that the method of "moral sausion" was adopted because it was realized that in the absence of some action regarding the total volume of credit, selective credit controls would prove entirely ineffective. "Moral sausion" has, therefore, to be considered as only a minor and supplementary device.

The other method of control over total volume of credit has been that of variation in required reserve ratios. This was first resorted to towards the end of the busy season of 1959-60. However, it was relaxed immediately on the commencement of the busy season of 1960-61 and later withdrawn completely. There is thus little experience regarding the results of its use.

The existing situation regarding bank rate policy of the Reserve Bank is largely the result of steps taken during 1960. These steps led to the effective insulation of the bank rate. Previously it could be said that if the Reserve Bank wanted to raise the general rate of lending by commercial banks it would bring this about by raising the bank rate. In September, 1960 the Reserve Bank raised the lending rate of commercial banks by directly asking them to do this by at least an average of  $\frac{1}{2}$  per cent, and imposing a minimum of 5 per cent, without at the same time changing the bank rate.

The bank rate remains the rate at which the banking system can borrow from the Reserve Bank. In September 1960 the situation in this regard also was modified by introduction of the quota and slab system. This meant that banks could obtain only a limited volume of funds at the bank rate from the Reserve Bank. For an increasing supply there was a tier of higher rates. Of course, the bank rate as the base of the structure still has some significance; but as the dimensions of the quota and slabs and the differential rates are all variable the significance that remains is small.

Reluctance to raise the bank rate is usually linked with fear of the possible effects of the increase on prices of government securities and on the interest rate for government borrowing. The somewhat devious steps taken during 1956-57 before finally raising the bank rate were so interpreted at the time.

Current policy rests on the assumption, which appears generally valid today, that the government securities market is almost entirely an institutional market. Government securities are today bought chiefly by insurance companies, provident funds, banks and other bodies and persons who, for one reason or other, have to buy government securities and whose purchases are not significantly affected by the general level of the interest rate. In such a situation, government can keep its borrowing rate, at least partly, insulated from market conditions and government would be justified in taking advantage of the situation to keep the rate low. The desire of government and the Reserve Bank not to do anything which will raise its borrowing rate or will lead to wide fluctuations in prices of government securities has thus led, by stages, to an effective immobilization of the bank rate as an instrument of monetary policy in India.

This divorce of the bank rate and the effective lending rate can be looked at from another point of view. When it is said, for example in text books, that the raising of the bank rate will have a dampening effect on activity, there are usually two ways in which this effect is supposed to be produced. Firstly, through raising the cost of borrowing to all borrowers and making them reduce the scale of their activities but also secondly, through its effect on the prices of securities. As the securities form an important part of the base of the structure of bank credit a reduction in their prices contracts the base. The effect is the dual effect on borrower and lender and it has been argued that while the effect on the borrower is somewhat delayed and is apparent only in the long run, the effect on the lenders i.e. banks themselves is immediate and is the more important in the short run. If this is accepted it follows that action in relation to the bank rate to be successful in reducing the tempo of activity must be allowed to affect the market prices of government securities.

The Reserve Bank is entrusted with the management of the Public Debt and an important objective of the purchases and sales of government securities made by it is to maintain the level of prices of these securities at an appropriate level. It has been alleged that as a result of the introduction of the penal rate system by the Reserve Bank, commercial banks curtailed their possible additional investment in government securities so as to be independent, to a large extent, of borrowings from the Reserve Bank. However, even so, the holdings of government securities by banks continue to be substantial and represent 40 per cent or more of outstanding bank credit at any time. The banks also managed during 1961-62 to borrow from the Reserve Bank amounts, which were on an average, a smaller proportion of outstanding bank credit (less than 4 per cent) than in any year after 1954-55. In the last resort the banks can sell government securities in a market in which the Reserve Bank's debt management policy is an important factor in the determination of the price level of securities. The large holdings of government securities by banks thus constitute a limitation on the Reserve Bank's capacity to restrict the volume of supply of funds. Also, the debt management policy of the Reserve Bank must bear some relation to the operation of the Bank's quota, slab and penal rate system.

As there are limits to the ability of the Reserve Bank to keep down the rate on government borrowing the bank rate cannot be held constant at one level. However, it is now to be changed only when market indicators have so far altered as to make the change necessary in order to keep the rate in line with the altered situation. The bank rate trails behind other indicators; and the chief relevant indicator appears to be the yield on long-term government securities. Recent

developments endorse this view. The yield on non-convertible government paper had increased steadily during 1961 from 4.03 per cent in January to 4.23 per cent in December. In July 1962 it increased further to 4.31 per cent. The Government of India issued its mid-year loans during 1962 at 4 per cent; but the States which issued their loans soon after were advised to float them at  $4\frac{1}{2}$  per cent. With the outbreak of the war there was further sharp fall in prices of government securities and the yield on non-convertible government paper shot up to 4.73 per cent in November 1962. The Reserve Bank raised the bank rate to  $4\frac{1}{2}$  per cent on January 2, 1963. The step was explained as a measure of adjustment of the bank rate in the light of trends in the money and capital markets. The increase was also intended to formalise the existing pattern of interest rates established by the progressive modification of the slab rate system. Simultaneously the three-tier slab rate system was simplified into a two-tier system and the quotas and rates were so adjusted that the average rate for borrowing by banks from the Reserve Bank was not increased.

The bank rate as the sole instrument of policy is a thing of the past even in highly integrated industrialized economies. For example, it is recognized that in Britain there is, now, what has been termed a package deal and that a rise in the bank rate has usually to be accompanied by restrictions on bank advances, controls on hire-purchase and cuts in the capital programme of the public sector. Control of hire-purchase is held to be of considerable importance in the U.S. and an appropriate manipulation of public expenditure policy is considered in most countries to be a necessary accompaniment of monetary measures. Two points need to be made in this connection. In all underdeveloped economies which attempt planned development, consumption has to be controlled by the more direct methods of a regulatory price policy or in extreme cases, of rationing of supplies. Frequent adjustments of public expenditure programmes are similarly ruled out in a country attempting a plan of development. It is undoubtedly, important to set the level and rate of such expenditure at a practicable level. But once this is done the tempo of development activity has to be steadily maintained. With long-term integrated plans of development it is inappropriate, it is indeed highly wasteful, to alter frequently the programmes and the pace.

### III

In retrospect the policy of the Reserve Bank of India during the last decade can best be described as that of cautious improvisation. The one firm objective or prejudice by which the Bank seems to have been guided was that of not raising the bank rate. For the rest, action



by the Bank was taken late rather than early and there is little evidence of either a pre-concerted plan or of a deliberate use of appropriate instruments. The instruments arose out of changing circumstances. Initially large claims were made by the Bank on behalf of selective credit controls. The claims could not be sustained and even with the backing of moral suasion the use of selective controls is limited to giving a warning regarding speculative activity in particular directions. Increase in required reserve ratios is a measure obviously to be used when the deposit resources of banks are relatively ample and the Reserve Bank thinks it necessary to restrain their lending operations. The Reserve Bank increased the statutory reserve requirements of scheduled banks in March and May 1960 in view of current inflationary pressures. The slack season of 1960 did not ease the pressure on banks and the Reserve Bank took additional action in September 1960 by way of establishing the three-tier structure of interest rates. At the beginning of the busy season in November 1960 the banks thus found themselves in a difficult position in relation to the seasonal increase in demand for credit. There was considerable complaint of the inability of the banks to meet demands of trade and of industrial production. It was possible for the Reserve Bank, at this time, to take the view that the reserve requirements imposed in May 1960 should be continued throughout the succeeding busy season and that banks should be forced to resort to borrowing from the Reserve Bank at the enhanced rates of interest. The Reserve Bank did not adopt this view, but withdrew in two stages (November 1960 and January 1961), the reserve requirements imposed in March 1960. This apparently means that the Reserve Bank finds it difficult to disregard complaints about lack of funds for normal needs of trade and industrial activity and is therefore, unable through varying of reserve ratios to take effective action in relation to increase in the total volume of credit.

The slab, quota and the penal rate system can be used to curtail availability of Reserve Bank funds and, in particular, to induce banks to raise their lending rates. The system can now be considered as a permanent feature of Reserve Bank administration. The direct efficacy of its use may, however, be doubted. At present only some banks during some periods of the year borrow substantial sums at really high rates of interest from the Reserve Bank. For even these banks the average borrowing rate is thereby raised by only a negligible fraction. The readiness of banks to raise lending rates, in these circumstances, must be taken to be a case of conventional behaviour. Which means that even this most direct action can yield results only in the event of a full understanding on the part of the banks of

requirements of Reserve Bank policy and their readiness to act appropriately.

The efficacy of a large part of economic regulating operations in all countries of the world depends upon a widespread and accurate understanding of the intentions of the regulating authority and on cooperative behaviour on the part of the members of the system. Difficulties in India arise through two sources. Firstly the intentions of the authority are not always clear; secondly full cooperation of members cannot always be assumed. The first aspect is the more crucial and important. Reserve Bank policy has grown by improvisation and stable conventions regarding purpose and use of the instruments evolved during the last eight years have not been established. There is relatively little public discussion of these matters. Also, barring *ad hoc* meetings at critical times, no permanent machinery for informal exchange of views between Reserve Bank Executives and leaders of the banking system appears to have been created. In fact, there is little evidence of continuous consultation for evolving a consistent policy on the part even of the three main constituents of the official apparatus, the Finance Department of the Government of India, the Reserve Bank of India and the State Bank of India.

It would be useful to refer in this context to the recent history of the rates of interest charged by commercial banks in India. The level of these rates, especially for large favoured parties, was very low in India till 1955. The conversion of the Imperial Bank of India into the State Bank of India led to some raising of the very low rates; this step would, however, not affect the average rates. From 1955 to 1959 banks were continuously under pressure and the rates on both deposits and advances moved upwards. The table below sets out information for three years both for scheduled and non-scheduled banks.

The non-scheduled banks are all small and as a group they cover an insignificant part of banking business in India. Their figures are, however, useful for comparison in so far as they are not governed by directives of the Reserve Bank and have not arrived at mutual agreements on rates on deposits. From 1954 to 1959 the average rate of interest paid on deposits by scheduled banks moved up sharply. This was the result of two movements. In the first instance, there was a very general trend towards transferring money from demand deposit accounts, which earned little or no interest, to time deposits. Secondly, the relatively slow growth of deposits led banks to raise rates in competition. In October 1958 scheduled banks reached an agreement amongst themselves on rates of interest paid on deposits. This led to stoppage of the competitive increase of rates and led to some lowering of the average rate paid for borrowing which is reflected in the difference between figures for 1959 and 1960 in the

AVERAGE ANNUAL RATE OF INTEREST PAID FOR THE PREVIOUS  
HALF YEAR

Period ending	Scheduled Banks		Non-scheduled Banks	
	Deposits	Advances	Deposits	Advances
31st December, 1954	1.41	5.03	2.90	7.32
31st December, 1959	2.191	5.705	3.660	9.053
31st December, 1960	1.953	5.992	3.851	9.055

SOURCE: *Reserve Bank of India Bulletin*

table above. The average rate of interest on advances charged by the scheduled banks did not grow rapidly between 1954 and 1959. However it continued to move upwards in 1960. The main factor responsible for this movement was the directive issued by the Reserve Bank in October 1960 to all scheduled banks to adhere to a minimum lending rate of 5 per cent and to raise their average lending rate by at least half per cent over that of the previous year. The figures in the table refer to the second half of the year 1960 and do not show the full effect of the Reserve Bank directive of October 1960.

It is understood that the Reserve Bank took the unusual action of prescribing the minimum lending rates for banks, chiefly, at the request of the banks. The banks were unable to come to an agreement among themselves regarding raising the interest rates and preferred that it should appear that the raising of rates was externally imposed on them. The situation in this regard appears to have changed substantially since 1960. The agreement regarding rates on deposits has been renewed with a wider coverage and the banks appear to have arrived at understanding among themselves regarding rates of interest on advances. The banks no longer find it necessary to have to increase rates on advances at the direction of the Reserve Bank of India. The changed situation was strikingly illustrated in January 1963 when the Reserve Bank raised the bank rate to 4½ per cent. At this time the Reserve Bank took care to see that the average rate of borrowings from the Reserve Bank by banks was not affected by the increase in the bank rate. Also, it made clear that the new rate merely formalized existing relations. Obviously it was intended that

the banks should not raise their own lending rates because of the change in the bank rate. However, the banks chose to ignore this hint and have taken joint action so that in January 1963 the minimum lending rate charged by all the scheduled banks, other than the State Bank of India, was placed at 6½ per cent. That at the same time the State Bank of India maintains its minimum advance rate at 5 per cent emphasizes the prevailing state of confusion.

The Reserve Bank is seen today to have little effective control over the supply of funds. Such control cannot be achieved as long as the level of government expenditure is not influenced by the thinking or action of the monetary authority. However, even the more limited objective of controlling the level of rates prevailing within the banking system seems no longer attainable. It has been indicated above that the direct effect of the use of instruments of Reserve Bank policy, including the quota, tier and slab system, on banks is not likely to be significant. In view of the ability of the banks now to act in agreement it is neither necessary nor desirable that the Reserve Bank should prescribe the level of rates directly as it did in October 1960.

The evolution of Indian banking has taken a turn through which a small number of very large banks dominate the scene. They appear able and willing to raise lending rates continuously by mutual agreement. This may soon convert India from a country of relatively low lending rates to one of high rates. It is necessary to avoid this contingency. The failure of the Reserve Bank to encourage the building up of a system of local banks has been a handicap for the development of smaller businesses and smaller locations. A regime of high bank rates will further add to their difficulties. It is not possible for the Reserve Bank to impose on the banks a system of varying rates for different types of borrowers or purposes of borrowings. In the circumstances, a policy of using a high level of commercial bank rates to ration supply of working capital will have undesirable results.

The analogy of Japan is often cited in this context. However, the situation in Japan is entirely different. Monetary regulation by the Bank of Japan is not complicated by requirements of a debt management policy. Also, Japanese banks depend so completely on the Bank of Japan for supply of extra funds that detailed and discriminating regulation became possible, when necessary. The conditions in Japan differ from those in India in a number of other ways. The economy is highly integrated; the rural sector is fully cooperativized. Though the level of rates is high the spread is relatively small. Moreover, Japanese industrialization is an accomplished fact. Further growth of the economy is, therefore, not dependent on a regime of restrictions and inducements as in India. The current Japanese policy also operates in favour of the large-scale and the already successful. In

India we are attempting planned industrialization in detail and in this country, in view of the existing high concentration of resources and opportunities, market forces operating through high pricing may unnecessarily raise costs and will add to the difficulties of small business.

In the existing situation in India it is necessary that the monetary authority should be in a position to take action, particularly, in two directions. Firstly, there is the constant fear of inflationary pressures becoming too strong. For dealing with this contingency the monetary authority must be able to influence the policy of commercial banks regarding expansion of the volume of credit and the level of rates of interest. This must, of course, be accompanied by appropriate steps relating to expenditure of government. In view of the strong quasi-monopolistic position of the big banks in the country there arises also the opposite danger of an unnecessarily high level of rates of interest and of non-availability of adequate bank credit to certain sections. The monetary authority must, in this case, have a positive policy regarding expansion of banking facilities and must be able to restrain undue increases in levels of rates of interest charged by commercial banks. As pointed out above, existing instruments of policy available to the Reserve Bank are unable by themselves to achieve either of these objectives of policy. It is, therefore, urgently necessary that in the first instance, the pattern of monetary policy and action in all major contingencies is clearly and explicitly formulated and that this is articulated through coordinated action by the Reserve Bank of India, the Finance Department of the Government of India and the State Bank of India. Secondly, the Reserve Bank must build up understanding with the banks through regular informal contacts and discussions so that any action by the Reserve Bank regarding ratios, rates, etc. is correctly interpreted and obtains appropriate response from the banking system.

## FINANCING DEVELOPMENT IN THE PUBLIC SECTOR AND PUBLIC ENTERPRISES\*

THE government sector is often called the "public" sector in discussions of the subject. The term "public", in this context, is not used in the sense in which it is used when one contrasts the "private" life of a person with his "public" life or in the sense in which it is used in the phrase a "public limited company". In the common controversy about, say, the merits of the "private" and "public" sectors, the term "public" is used as if it was synonymous with "government" or the "state". It may be more convenient to talk of the "government" sector, but that in common usage it is continuously referred to as the "public" sector must be borne in mind.

The word "sector" in the phrases government or public sector has also acquired a specialized meaning. The government sector does not comprehend all the activities of government. It is taken to refer only to economic activities of government and an important part of even economic activities is excluded. For example, the taxing and tax collecting activities of government are not ordinarily included. The term government sector derives significance from certain ideas or prejudices widely held in the West for some time regarding the proper sphere of activities of government. The narrow sphere of activities which *laissez faire* theorists defined as legitimate for the state are not included in the term "government sector". It is difficult to give precise meaning to a phrase so widely and loosely used. However, it would appear that government sector includes all economic activity of government relating to production, trade and transport and the finance of these. It also sometimes includes "social welfare" activities.

We are concerned not with the part played by government in economic development, which is a very large subject, but only with the role of the government sector in this context. During the twentieth century the extent of taxation and of government sector activity have steadily increased in all countries of the world. This has happened in countries outside the communist fold. The communist or the democratic socialist countries, which include a large part of the world, have economic systems which operate essentially under regulation of authorities of the state.

\* Lecture, Fifth Seanza, Central Banking Course, Karachi, 1964.

Some idea of the present taxation and government sector activity may be obtained from the following figures. In 1960 the share of government expenditures in the United States' gross national expenditures was 27 per cent. For the same year it was calculated that inclusive of all kinds of taxes, social security contributions, etc. government in the Federal Republic of Germany took 42 per cent of the gross national product.<sup>1</sup> Calculations regarding the importance of the public sector are much more difficult to get at. A recent attempt to measure the share of the investment in the public sector of total investment for the years 1950-57 yielded the following percentage figures for some important countries : United States 15, Belgium 23, Japan 35, France 36, Sweden 39, United Kingdom 48. The public sector in the above calculations comprised industrial, trading, transport and financial enterprises, public utilities and social services.<sup>2</sup>

This increase in the size of taxation and of public sector activity has been attributed to a number of factors. The dominant factor is obviously the industrial and technological revolution of the last two centuries. This has entirely changed, the conditions of transport of goods and men and the technique and organization of productive activity. The resulting large increase in the scale of and centralization in a number of key activities has led to great expansion in the activity of the state. Modern productive organization requires for its smooth operation a large number of services, many of which can be best rendered by an organization holding privileges which only a state can grant. The central banking and monetary systems are now universally set up by the state. Services like those rendered by the post, telegraph and telephone systems, railways, air and road transport, by electricity, gas and water supply agencies have to be granted franchises and privileges by authorities of the state both for establishment and for operation. The position of the purveyors of these services is usually so strong that public regulation of their activities is deemed necessary if they are run privately. In a number of the poorer countries the supply of these services is not expected to be adequate or economic unless the state takes the initiative in furnishing them. With rapid development of economies there arise problems of proper long-term conservation and of optimum utilisation of exhaustible natural resources, which also call for state regulation or direct state operation. With progress of economy of large-scale operations and other developments the number of entrepreneurs left in certain crucial fields become very small and dangers of monopolistic

<sup>1</sup> Brandt K., in *New Argument in Economics*, Ed. Schoeck and Wiggins, 1963, p. 25.

<sup>2</sup> Duggal V.D., *Optimum Extent and Operation of Public Sector*, Lahore, 1961.

or quasi-monopolistic control of these areas arise which necessitate intervention by the state. Finally, with increasing emphasis on social security and greater equality the social security and welfare activities of the state have steadily enlarged.

This is the general position throughout the world. The events of the two world wars, and of the Great depression of the thirties have powerfully influenced the course of events indicated above and have led to special developments in particular countries. The fear of unemployment and of spread of communism have accentuated the trends during the post-war period. An important new factor in the post-war period has been the urge towards deliberate reconstruction and development of national economies. This has been evident in all states, developed or underdeveloped, belligerent or non-belligerent. In most cases deliberate action has involved some sort of planning and considerable initiative and action by organs of the state. In the poorer underdeveloped countries the plea for planned development has received special attention; and this has inevitably thrust governments in the foreground. Because of the fact of underdevelopment, governments in these countries have had to undertake provision of the fundamental socio-economic overheads on which development of all modern economic activity depends; they have had to undertake costly schemes for the development of natural resources such as for irrigation and power development; they have had to undertake establishment of crucial and basic enterprises either because nobody else was ready to launch them or because central control of their operations was deemed essential.

At the beginning of the fifties there was no general consensus of opinion regarding national planning or programming for development of underdeveloped countries. However, today an economist with a high official position in the government of the United States is prepared to state as follows : "We believe national programming of the development process is required as a basis both for the domestic mobilisation of resources and effective foreign aid." (W. W. Rostow). The sentence also incidentally indicates the scope and purpose of national planning and programming. It makes clear that for proper planning a view has to be taken of the development process itself. This means looking into the future and chalking out the route which the economy is likely to take in the process of development or which it may be induced or directed to take. The core of the planning act is described by the phrase mobilisation of resources. This has at least two facets; the first, that of taking stock of and gathering together all available resources, domestic and foreign; the second, that of the utilization directly of these resources, or their allocation for use. The route taken by the cumulative development process is implicated in



the year by year utilisation and allocation plans. And the pace of the process is largely determined by the volume of resources that can be initially mobilised and the increases in them that can be made available in successive years. Acceptance of national planning and programming in the above sense involves acceptance of central decision-making regarding the raising of resources and also a minimal planning of their utilization and allocation. The specially wide taxing powers of central governments in most states, the superior ability of central governments to borrow from the public and receipt by or through central governments of foreign aid from international organizations or foreign governments make the first inevitable. The ability to pool together resources to a very large extent makes it highly desirable, in a long-term development process, to attempt some central regulation of utilisation and allocation. These are the main tasks to be performed in formulating plans of development, whatever the agency entrusted with this responsibility.

While the finalisation of a development plan is almost everywhere a central responsibility the implementation of a plan and of its various parts cannot be highly centralised. The various agencies of plan implementation may be indicated by a twofold classification : Firstly by nature of authority, whether public i.e. governmental or private and secondly by area or coverage of operation such as country, state, local area, etc. In all organisationally developed structures — public, private or cooperative — in a large country, especially of the federal type, the area gradations will be fully in evidence. To the extent that the implementation of a scheme or programme is entrusted to an organ of government the attempted implementation is direct. This is in the sense that the task is allotted to an agency over which the planning authority itself has ultimate control. From this point of view all planned activity in the public sector is in the nature of direct utilisation of allotted funds. Of course, in a federal type of government the degree of control exercised by a Central Planning Authority or government is not the same over state or local authorities as over organs of the Central Government. The difference is, however, one of degree and not of kind. Where plans of development require for their implementation action by private individuals or organizations these have to be led, induced or encouraged to act appropriately. Planners may thus have a preference for direct action by governmental authorities. However, in an underdeveloped economy, economic activity is to a very large extent carried on by very numerous, dispersed, small-scale units and a plan of economic development necessarily involves influencing these and acting upon and through these. It was a characteristic of colonial regimes that even the most well-disposed amongst them undertook only such economic activities as could be

properly centrally planned and executed. Large strategic railroad systems or big irrigation works were executed by these; the country-wide, local developments, they perforce neglected. It is part of the essence of the post-independence plans of development of the ex-colonial countries that they not only undertake on a large scale and in a varied form the provision of the network of economic services and basic enterprises but have also to attempt to look after full development of dispersed, small scale private activity.

Activity in the government sector at all levels of area authorities arises out of the effort at implementation of plans. The national government and the governments of states and of local areas have all an appropriate share in the provision of socio-economic overheads and the conservation and development of natural resources. Certain large-scale key enterprises usually fall within the purview of the national government. However, where governments have to function as pioneers or pace makers in economic activity some direct conduct of enterprises by state or even lower area authorities becomes necessary. Important responsibilities devolve on state or provincial governments in the matter of rendering financial assistance, technical services, etc. to the cooperative sector and to the smaller enterprises. In this situation the mobilisation of resources used directly in the governmental sector runs up against problems involved in federal financial arrangements.

The mobilisation of resources for plans or development refers, in the main, to resources which are routed through agencies which governments control or of which they have direct cognizance. All plans of development of underdeveloped countries include in their overall financial calculations resources which the planners guess and hope may be available but relating to the size and movement of which they have little direct information. Thus, all plans assume a certain amount of savings and investment by, say, farm households in their own business; in addition, the plans provide for financial assistance through government or cooperative agencies for farmer participation in plans of agricultural development. Some parts of agricultural development plans may be the responsibility of government sector agencies; others would require action by farmers in relation to their own businesses for which, in part, a public agency may provide funds. While the term mobilisation would usually cover only the funds of which government has direct cognizance and which it can to some extent control, the other part of the savings-investment process is also of importance. This is so specially because it is often found that government sponsorship of programmes and provision of funds in some contexts can lead to an increase in the savings-investment effort of the small household enterprises.

It is, perhaps, a sign of underdevelopment that a large part of the savings in the economy are formed in households and are also to a substantial extent directly used in household businesses. In a developed economy, on the other hand, savings which are public *i.e.* governmental and corporate *i.e.* of incorporated business, predominate and the savings of private households are held chiefly as financial assets and are routed through financial intermediaries to ultimate investors. The transition from the former to the latter situation is part of the process of development planning and of mobilisation of resources for the same. The effort at creation of a widespread net-work of commercial and cooperative banking and at creation of specialised financial agencies with such names as Industrial Finance, Industrial Development, Land Development, Small Business Finance, Industrial and Agricultural Refinance, etc. is aimed at transformation of the financial institutional situation and should make problems of mobilisation of resources progressively easier.

However, in the initial stages the new financial institutions serve more as means of directing resources for utilisation to appropriate quarters than as agencies for increasing or mopping up savings. For mobilising the savings of households, main reliance has then to be placed on taxation. The percentage of national income collected through taxation today by governments of underdeveloped countries is much smaller than that in the developed countries. Poverty and underdevelopment are both responsible for this. Development Planning requires that resources at the disposal of governments for investment and developmental expenditure be increased. The main means of achieving this is increased taxation. As development increases the national product and diversifies the economy, tax proceeds should rapidly increase. However, many difficulties are encountered in the transitional stage. These arise out of the number of objectives that tax policy has to aim at. It has to be the aim of tax policy to absorb increments in income in taxation. However, in doing this it must, on the one hand, not discourage production and savings effort and, on the other hand, affect adversely the low average standard of living of the people. It is sometimes claimed that fiscal policy should even aim at reducing the prevalent gross economic inequalities. Difficulties arise when an attempt is made to achieve all the aims simultaneously. A high proportion of tax revenue raised through a progressive personal income tax is generally considered to be an index of an equitable tax system. The share of such taxation in underdeveloped countries is at present small and has not been significantly increasing during the last decade. Attempts to increase this share usually come up against the arguments that very high rates of personal taxation act as disincentives to savings and against the general prevalence of widespread

evasion. Taxation of company profits is directly related to the concept of the increase of corporate savings. If it is thought desirable to increase the contribution to savings made by the earnings of public limited companies ploughed back in own business by them a logical limit to the level of taxation of company profits emerges.

Today indirect taxation plays a much more important part in tax raising than direct taxation in most underdeveloped countries. It is generally agreed that this predominance of indirect taxation makes, on the whole, for a regressive system of taxation. To avoid this general tendency it becomes necessary to choose particular measures of indirect taxation and to try and discriminate in the extent and objects of the incidence of such taxation. This is not an easy task in countries where the standards of consumption are relatively uniform and low. It is possible to a significant extent only where increased consumption of certain semi-luxury products can be identified as associated with increments in levels of income and taxation results in both restraints on consumption of these goods and restraints on the canalisation of extra resources in their increased production. Such selective taxation does not usually yield high revenues and resort has to be taken to general measures like that of sales taxation. The major difficulties encountered by tax policy are thus the incompatibility of an equitable system of direct taxes with the objective of high level of savings of the rich or of corporations and the difficulty of restraining consumption only through tax measures without running the risk of inequitous and undesirable consequences.

Certain public sector enterprises are in a position to obtain resources as a result of their own activities and need not depend, at all or entirely, on allocations from outside. Enterprises which have a surplus of receipts over expenditure may be in a position to effect net savings which they can utilise in business. Also some enterprises could borrow from the public on their own. The extent of the autonomy of the public enterprise and the type of its business activity are important in this context. Most public sector enterprises derive their capital resources from government, in the ultimate analysis. However, the arrangements under which this is done vary from case to case. Some may be administered almost as departments of government; in this case barring certain conventions regarding the keeping of accounts or the presenting of budgets there is little difference between these financial arrangements and those of other departments of government. Others may be independent statutory corporations or may be registered as companies — public or private. These may have initial resources placed at their disposal by government and may be allowed or expected to provide for themselves later or may be given limited or discretionary periodic assistance by government. The

details of these arrangements are important chiefly in the context of exercise of parliamentary control or of concept regarding modes of guaranteeing efficiency of management. There is one subject which is, however, of wider economic significance and this relates to the pricing policy of public sector enterprises.

There are a large number of problems relating to price policy of public enterprises with which we are not directly concerned such as, for example, the relative merits of average and marginal cost pricing or the extent to which discrimination in pricing should be practised. However, the issue of the overall level of prices charged as related to total profit-making capacity is directly connected with finance of public sector undertakings. A number of views can be and are taken relating to this issue. Subsidisation of particular customers or services even at the risk of increasing loss is advocated in certain cases; the no profit no loss formula is very popular though its precise definition raises many problems. It is often contended that public enterprises ought to aim at obtaining profits considered normal in the economy. And especially where discriminate quasi-monopolistic pricing is possible there are many who urge that full advantage be taken of the situation to obtain extra revenues. It is obvious that the variations are related both to the type of enterprise under consideration as well as the socio-economic point of view of the protagonists. On the whole, there is considerable recent consensus that prices charged by public enterprises in underdeveloped countries tend to be low and that, where the results are not likely to be undesirable, a higher level should be maintained which provides for part of the resources needed for expansion.

Individual public enterprises may be in the position of meeting their own financial requirements through borrowing from the public by way of loans, debentures, etc. As a general rule, in the underdeveloped countries, few enterprises will be found which command sufficient credit by themselves and most of the borrowing of public enterprises, including financial enterprises, is backed by a government guarantee. Ordinarily the terms and conditions of the borrowing, its timing and its extent are also determined in consultation with the central bank and monetary authority. In the circumstances, what are the special advantages of some individual public enterprises borrowing directly from the public instead of all being financed through general loan raising by the central government? One possible advantage is that such loans can be offered at somewhat more attractive rates, etc. than the standard government loan without affecting the rate for the latter. It may be argued that this leads to a total larger effective supply of funds at a relatively low average rate. In a similar fashion it may be held possible for individual public enterprises to tap special sources of supply which may not be fully explored by

general governmental borrowing. The second argument is not very convincing. For example, the Government of India has, during the last decade, held in successive years opposite views relating to the matter. In some years, they have operated on the belief that the total result of the borrowing effort would be larger if the Government of the Union and the Governments of the States all entered the market. In other years the Government of the Union has considered it better to be sole borrower and to meet the needs of the states from its borrowings. The relative merits of the two approaches depend also on the sources of supply of loan funds.

Who, in the main, support the government securities markets in the underdeveloped countries? Obviously, no generalised reply can be given to this question. However, certain features appear common. The savings of the average household are small and the attempt to convert them into holdings of financial assets has usually to be a highly specialised effort directed specifically to the particular situation of particular groups. Various types of schemes of cooperative, postal, small savings deposits and loans as well as insurance, provident fund, etc. facilities have been elaborated in this context. The average household is thus not important in the market for government securities. The capital market in underdeveloped countries is, in most cases, highly limited in terms of extent of the investing public. Even where there is a capital market and a significant number of investors, the relative attraction of private enterprise investment is too strong and private investors do not invest significantly in government securities. The government securities market, therefore, tends largely to be institutional. There are a number of institutions which for a variety of reasons including legal obligation, hold a part of their resources in government securities. Provident and other social security funds, Insurance companies, Commercial Banks, Private and Public Trusts, etc. are in this position. It is found that issues of government securities are largely taken up by these. In this context the chief merit of borrowing by individual public enterprise appears to be in part of the total borrowing being offered, in this way, at more attractive terms. There are usually no special classes of lenders that individual enterprises can particularly tap. This is brought out particularly in the Indian case because of the nationalisation of life insurance and of the Imperial Bank of India. Most issues of public enterprises, such as land development banks, housing finance corporations, electricity boards, etc. are dependent for success on substantial support by the Life Insurance Corporation, the State Bank of India, the Reserve Bank of India, etc.; and for obtaining this support, government intercession has often to be sought.

The total domestic resources that underdeveloped countries are able to raise, through taxation and borrowing, fall inevitably far short of their requirements particularly in the initial stages of development. Therefore, these countries have, during the last fifteen years, come increasingly to look to foreign aid to fill the gap. This applies with special force to non-communist countries which are not in a position to use the measures employed in communist countries for the mobilisation of physical, human and financial resources. Because the importance of helping underdeveloped countries to develop has been recognised by developed countries, the sources and agencies making foreign aid available and the total volume of such aid have greatly expanded. The aid has been available through international organizations, through governments and through private investors. The extent of investment by private investors has, so far, been limited in extent and scope and does not play an important part in the finance of governmental enterprises. Most of foreign aid has been available in the form of loans. Grants have been confined largely to relief measures and to military aid. As the volume of foreign aid has grown, the proportion of loans has increased. Most loans, whether made by international or particular governmental organisation, are made on the basis of individual projects. The financial plan and the future working prospects of the project are examined, as in any long-term loan, by a bank before the loan is made. The International Bank which is the most important agency making such loans finances itself by raising funds in the international money market. The terms and conditions of the loans are, therefore, fairly heavy.

Government enterprises carrying out programmes of development which have a sound economic base are today in a relatively favourable position to obtain loan funds from abroad. Certain difficulties emerge when one looks at the entire government sector programme. The individual project approach necessarily leads to the lender looking not to a development plan as a whole, but only to those particular parts which may on examination be found to be good banking propositions. Moreover, the view that the bankers' experts may take of future prospects may, many times, differ from those of the internal planning authority. And, especially where the lender is connected with a particular government, the financial examination may be affected even by ideological considerations. In this manner, it is always uncertain whether any particular project will receive adequate foreign aid or not and the aid prospects for the plan as a whole over a series of years are even more uncertain. In many underdeveloped countries planning techniques have not been sufficiently developed and most underdeveloped countries find it yet necessary to undertake investments in relation to the "infrastructure" on which little or no direct

return can be obtained. In recent years the need for assistance for such purposes has been recognised by the setting up of the SUNFED and the IDA. While the SUNFED makes grants for pre-investment projects, IDA gives only loans. These loans are also made only for projects which can stand scrutiny as banking propositions. They are, however, available on substantially easier terms. Another source of aid for projects which might not be good banking propositions is the surplus stock of commodities which some developed countries are ready to make available, under certain restrictions on very easy terms.

An important aspect of foreign loans is the arrangement for their servicing and ultimate repayment. Many underdeveloped countries in, for example, Asia and Africa which had very small foreign debts ten years ago, are becoming heavily indebted today. Already some of them are finding that the servicing of foreign loans obtained by them on high rates of interest is taking up a substantial portion of their current foreign exchange earnings. As the foreign loans fall due for repayment the total burden on the economies will become progressively heavy. This imposes a limitation on foreign aid as a continuing source of development funds.

Foreign-aid is, at present, found necessary not only for augmenting total resources but also for meeting the pressing need created by the development process for foreign exchange resources. Import of capital and of intermediate goods is a necessary concomitant of development planning in early stages and the normal trade transactions of underdeveloped countries are unable to earn the large foreign funds needed for this purpose. Ultimately normal investment and trade should suffice to meet total requirements. Currently, almost insuperable difficulties are encountered in an adequate expansion of the foreign trade of underdeveloped countries.

It is obvious that all underdeveloped countries planning economic development have continuously to face the problem of inadequacy of resources. The minimum rate at which it is thought desirable that the national product should grow, usually requires resources much larger than those available. Therefore, the plans are almost invariably over-ambitious and encounter in their implementation two sets of difficulties, physical and financial. The physical difficulties arise out of the extent of operations planned within the government sector. As long as the extent of these operations are limited government may hope to obtain most physical supplies that it requires by ordinary open market operations. However, when government's total requirements of, say, cement and rail transport or of technicians and imported machinery grow very large in relation to total supply some physical regulation and allocation become inevitable. Foreign exchange is almost everywhere scarce and planned investment with a significant import element



leads to rationing imports both of capital and of consumer goods. Controlled distribution of rationed imports raises many difficulties but can hardly be avoided. Similar situations arise in relation to internal supplies of key commodities and services. This is not necessarily evidence of bad planning. A country which is poor in most resources must while attempting to develop rapidly plan such full utilisation of them that the fulfilment of the plan inevitably requires some extra-market devices for allocations of important and scarce materials and services, restraining consumption of consumer goods, etc. The financial counterpart of this situation is that the economy is always on the edge of inflation and balance of payments problems.

A long term development plan requires a number of decisions regarding future investment projects and government activities which involve a period of gestation and some element of uncertainty. Firm financial commitments have, however, to be made in advance. The requirement of finding finances for increasing government activity and planned investment is compelling and non-postponable. An integrated plan of development must need be carried through as a whole if it is to yield full results. At the same time, the financial resources available *i.e.* proceeds of taxation, internal loans and foreign aid are liable to vary and the economy is subject to severe sudden strains as through an international recession or internal famines and floods. A full allowance for such risks and conservative estimation would inevitably make the size of the plan too low. Hence, the temptation or rather the requirement to put the size of the plan at the risky level.

What enables government to finance expenditures in anticipation of receipt of expected resources or to incur the expenditures even in face of an overall shortage of available resources? It is the power which governments have always used in times of stress, the power to create money. Whether through debasement of coins, the printing of notes or borrowing from the Central Bank against own securities, governments have been in a position to spend beyond the real resources commanded by them. In the context of the development plans of underdeveloped countries the process has, in recent years, been described as "deficit financing". Deficit financing is sometimes defined as the net increase in the government's indebtedness to the Central Bank, representing the excess of total public disbursements over public receipts from taxation, loans and other heads; it is also alternatively defined as the net borrowing of the government from the entire banking system. It is not necessary to discuss the relative merits of definitions as we are concerned chiefly with the possible consequences of deficit financing and the resulting limits on the process.

It is widely agreed that under circumstances of a developing economy deficit financing may be permissible and safe upto a given extent.

In certain circumstances such as that of regular increments in national product or increased monetisation of the economy anticipating creation of purchasing power may have no adverse effects. In specially favourable situations such as with a succession of good harvests the economy may not suffer or may even benefit from significant deficit financing. It is also argued that a measure of inflationary pressure may help in removing some constraints in the way of development such as labour mobility and disguised unemployment. Deficit financing may thus find itself compensated. In such circumstances it is difficult to calculate in advance a 'safe' measure of deficit financing.

Deficit financing is dangerous if it leads to a significant degree of inflation or a large rise in prices. However, even post facto it is not easy on the basis of aggregative monetary and other data to establish clear causal relationship between deficit financing and movements of prices. In underdeveloped economies, the immobilities and discontinuities within markets and the importance of institutional and structural elements make it difficult to analyse factors responsible for causing variations in the course of a series of prices or in creating a cumulative effect. This does not minimise the real dangers if, in fact, deficit financing leads to heavy inflationary pressures. It, however, emphasizes the impropriety of making mechanical calculations in terms of an isolated structure of monetary and fiscal policy. Physical development plans and the physical measures taken to ensure their orderly implementation and fruition are inextricably connected with financial policy. Unexpected failure in financial provision has to be compensated for by a stricter regulatory policy as in times of war. Without such coordinated planning and its intelligent execution the real aim of all development planning *viz.* the maximum continuous effort possible with the highly limited available resources cannot be contemplated or attained.

## INTERMEDIATE TECHNOLOGY : WHY AND HOW ?\*

IT is good that the Planning Commission is holding a seminar of technicians connected with intermediate technology. The seminar will presumably consider problems of planning systematic research and coordination in this field. It appears to me that before this can be done successfully, it is necessary to be clear as to what is meant by intermediate technology and what is the place it occupies in the total development plan, especially in relation to the plan of industrialisation. The theme "intermediate" denotes a stage somewhere between the "advanced" and the "backward". In India the "backward" may be identified with the technology of traditional Indian industry — urban and rural and the "advanced" with the technology of the industrially developed countries of the West. The "intermediate" presumably lies somewhere between the two. A more concrete concept of the intermediate may be obtained if we attempt to understand why adoption of intermediate technology is considered important in India and how such a technology is expected to evolve or develop.

The need to think in terms of intermediate technology appears to arise primarily from the redundancy of human labour in the country and the inability of the economy to use its labour resources in anything like a full or adequate measure. Important related factors are a very high proportion of those living in rural areas and engaged in agriculture and other primary occupations, a high rate of increase of population, the generally unfavourable land-man ratio and the desirability, for better organisation of agricultural production, of reducing numbers currently employed in agriculture. All these circumstances call for the creation, on a very large scale, of new non-farm employment opportunities. This can be done on a long-term stable basis only through the establishment of an industrial base of minimum size and strength. Further, in view of the present distribution of the population and the paucity of capital resources, the industrial complex to be built up has to consist of very large numbers of dispersed establishments capable of creating numerous employment opportunities in relation to capital investment. A subsidiary but not unimportant con-

\* Working papers, Seminar on Fourth Plan, Gandhian Institute of Studies, 1965, pp. 87-96.

sideration is the rate of the large numbers engaged, even today, in traditional small-scale industries — rural and urban. The total situation makes it urgent that the route of development be so planned that significant numbers of these are not rendered unemployed before alternative avenues of employment are opened for them and that as far as possible the investment in skills and capital equipment in the traditional industry are utilised in plans of development of industry in the future.

Recent experience gives further support to the analysis of requirements set out above. In the first instance, it has been increasingly emphasised that in under-developed economies the transmission of economic forces is very slow and partial. As a result the creation of a small number of centres of advanced industry in a country fails to have any significant impact on the bulk of the rural masses and areas in the rest of the country and does not initiate a process of transformation which embraces within any reasonable time-span the whole of the economy. In addition, it appears that implanting a relatively small element of highly advanced modern business, including industry, within an economy often leads to the development of a phenomenon described as a dual economy. This implies the semi-permanent existence of two parallel sectors within the same economy, one characterised by richness of resources, advanced techniques and economic progress, the other by poverty, backwardness and stagnation. Exchange relations between these two spheres would then take on the exploitative character which marked the exchange between industrialized metropolitan countries and their predominantly agricultural dependencies in the colonial era. It may thus happen that the two diverge and become antagonised instead of merging and progressing together.

Everything thus points to the desirability, nay urgency of initiating widespread industrial development in all regions of the country which will prevent accentuation of dualistic features within the economy and make for concerted and uniform economic progress. This I take to be the justification and purpose of any programme of "rural industrialisation". It is necessary to set this out because the scientists and the technicians must be made fully aware of what is expected out of the adoption of "intermediate technology". Their efforts must be directed towards the selection and development of those procedures and techniques which can serve the given aims.

Does the definition of aims and purposes make possible any generalisations as to characteristics of intermediate technology? The broadest generalisation one can make is about scale. The smallest scale compatible with efficient production is an obvious desideratum and a significant step in this direction is expected of all intermediate

technology. Negatively, intermediate technology would also be expected to keep down investment in fixed capital as low as possible; this would be balanced by there being no special emphasis on economy in inputs of labour, especially of those types which are not scarce in underdeveloped economies. These conditions arise out of relative paucity of capital, the tendency for fixed capital cost per unit of product to rise with diminution of scale and the redundancy of labour and its low cost. It is in this context that the problem of use of power may also become important.

Because of undeveloped communications and relatively high transport costs most situations in which intermediate technology is adopted are characterised by cut-up and limited markets. Production units within these would be protected to some extent from outside competition by the transport costs and by any preferences for local products that they are able to establish. The permissible margin in costs per unit of product between advanced and intermediate technology would thus be indicated chiefly by the saving on transport, marketing, etc. costs, any diminution in quality such as finishing, packing tolerated by customer in favour of the local product and by lower labour costs.

Economic development may be defined as the effort to increase the national product, absolute and *per capita*, by continuously adding to national resources and by making more efficient use of them. An advanced technology is by definition one which makes a more efficient use of resources than a backward one. Therefore, economic development, is in a sense, identified with adoption of more and more advanced technology. However, as indicated above, it may neither be possible nor desirable to adopt the most advanced technology available in many areas of the economy and effort has to be made to discover the technology appropriate to a particular field in the context of both the general and the specific economic situation. Where this process of adaptation has to be very widespread and appears likely to persist for a long period of time it is possible to talk in terms of evolution or development of intermediate technology or research and experimentation in that behalf.

From the point of view of a non-technician the following approaches to the development of intermediate technology appear possible. One approach may be to start with existing techniques in traditional industry and to utilise knowledge of advanced techniques to transform them suitably. Transformation implies retaining some elements in existing equipment, skills and procedures. If there existed possibilities of a continuous process of transformation so that starting from the traditional technique one could, through continuous change, reach the most advanced technology the problem would be relatively easy. It would reduce itself to that of choosing, for any industry, for a time

and place, a particular position on the continuum as the most suitable. In fact, however, such a situation exists in almost no field and each important advance in technology renders previous plant and equipment, for the most part, obsolescent. There may, however, exist limited possibilities of improving traditional technologies so as to keep their operations, at least, in part viable. This process of improvement of traditional technology is extremely important particularly for that part of the transition in which a holding operation for preventing added technological unemployment appears necessary. It is doubtful, however, whether such modification of traditional techniques would be accepted as resulting in intermediate technology.

Another approach would be to start from the end of the most advanced technology and to adapt and adjust so as to meet the requirements of the intermediate. The chief requirements of this, as defined above, are (i) small scale and (ii) change in the proportions of capital and labour inputs. A priori the process appears to have two prominent components. First is the analysis of the different units and processes in the total plant, equipment and operations. The analysis would initially aim at determining the extent to which the task of adaptation and adjustment of technique could be undertaken relatively independently for separate parts or units. Next on the basis of a given structure of wage rates and availability of various types of labour the relative advantages of full or partial adoption of advanced technology for the various separate parts could be calculated. It is this analysis that would uncover possibilities of maximising inputs of low cost labour and of saving on capital. The second component of the process would be the adjustment of the technique and equipment, to the extent it is to be adopted, to a smaller or the smallest scale compatible with efficient and economic production. In some cases, the process would also involve adjustment to special local circumstances such as type of fuel or power available.

A third possible approach may be to conduct experimentation and research in a direct effort to establish intermediate technology. However, for this to be fruitfully undertaken it would be necessary to define, for the scientist and the technician, the limiting economic circumstances. These are chiefly the scale of operations aimed at and the relative costs of capital and labour and the scale of their inputs — possible or desirable. Such direct effort at establishing intermediate technology would undoubtedly be conducted against the background of knowledge of advanced technology in the field. However, it would cover a much wider range of possibilities than the effort through the adjustment and adaptation approach.

It should be clear that the establishment of what is called intermediate technology is not a once-for-all process. It is related, on the

one hand, to current advance in technology and, on the other, to changing economic circumstances particularly the widening of markets and change in the relative costs and availabilities of labour and capital. Therefore, the evolution and adoption of any type or scale of intermediate technology has to be considered as essentially 'a transitional stage, though in the existing situation in India this transitional stage promises to be fairly long drawn out. The continuous changes in the situation to be visualised in the future, are mainly (i) the adoption in some areas of fully advanced technology and (ii) the readjustments in intermediate technology itself rendered necessary by the total change in the situation, technological and economic.

It follows that any consideration of intermediate technology cannot be conducted in vacua or by itself; it must be constantly and meaningfully related to the total situation. It must be related to both traditional and advanced technology and to the general economic situation, the plans of development, as well as to special economic conditions within the particular field of application. If one takes the view that today the most important and urgent technological problem confronting India is that of the adaptation of Indian economic circumstances of advanced technology it is obvious that the bulk of talent and finance in the technological field must be directed towards this effort. The setting up or getting together of a small number of inadequately staffed and financed units for this purpose is altogether insufficient. The main attention of the personnel on the applied side of National Laboratories, technical institutes and the large university departments must be concentrated on this work. The advancement of advanced technology in every field is being adequately pursued in the developed countries; the special adaptations and adjustments required in India are not and are not likely to be given attention in any other country. They must, therefore, obtain the highest priority in our plans. Intermediate technology should become a national concern and not as at present, a neglected field assigned to a small number of specialists, set apart.

Intermediate technology is not only closely connected with all technological work in the country but also, and perhaps even more closely, with all planning effort. No plan of industrialization can be meaningful which does not pay the fullest attention to it. In fact, as pointed out above, the changing circumstances against whose background intermediate technology has to be evolved are shaped by the plans. Per contra, realistic planning regarding the route and pace of industrialisation must be powerfully influenced by the possibilities and achievements in the direction of intermediate technology. There will be a group of activities e.g. certain basic industries, capital goods

industries, public utilities, etc. in relation to which the adoption of intermediate technology may not be considered. For the rest the effort must be organised in relation to particular aspects and phases of the plan and the best way of doing this is to organize it not as a distinct separate activity but as part of a plan covering an entire field or aspect. The concept of the Common Production already holds the field. This has not only to be elaborated but also to be made operational. Intermediate technology will obviously find an appropriate place in dynamic common production plans. I would suggest the evolution of a parallel concept of a "common utilisation plan". By this I mean taking stock of the total supply of industrial primary and other materials within the country and planning their allocation to various processes of transformation and industrial use. The planning will include both the processing of primary products and their later utilisation. In relation to intermediate technology the planning of the total utilisation of primary products of agriculture, animal husbandry, forest, etc. whose supplies are available dispersed in rural areas is specially important. In some of these cases, common utilisation plans would be partial counterparts of common production plans but not in others. The introduction of the concept of common utilisation plans is specially important in case of commodities not touched by common production plans as for example, bamboo and agave fibre, bagasse and molasses, hides and bones.

The evolution of intermediate technology and a proper definition of its position and function would also be facilitated by planning in relation to a whole group of activities such as building and construction trades. The extent to which the utilisation of local materials and local labour can be maximised while maintaining efficient and economic production through selective adaptation of technological advance must be established in detail in typical local situations. However, certain broad common approaches could also be evolved if intensive attention is given by teams of technicians to this widespread and universally important field of economic activity.

As described above the process of evolving and adopting intermediate technology is a dynamic process which should be the centre of interest of the plan of industrialization of the country. It should claim the attention, in an important way, of the ablest scientists and technicians in the country and planning in relation to it should be undertaken through integrated planning of whole aspects and fields of industrial development. The effort today is both highly inadequate and narrow. The division of jurisdiction in a number of separate Boards each having different ideas and approaches has been disastrous. Programmes of action embodied in rigid schemes miss the



essential dynamics of the situation. The input of scientific and technical talent has been meagre and sectionalised. While, therefore, the move to call together technicians engaged in related effort is welcome, this will bear fruit only if it is the first step in a much more comprehensive and large-scale plan of action.

## GOKHALE AS AN ECONOMIST\*

AN appreciation of the work and ideas of Gokhale can be undertaken only against the background of the new thinking relating to Indian economic problems formulated by leading thinkers in India during the last quarter of the 19th century. The rapid growth and crystallisation of thought in relation to the Indian economy during this period must be considered as a very remarkable phenomenon. The leaders of this movement of thought were Dadabhoy Nowrojee, M.G. Ranade and R.C. Dutt. There were, however, a large number of other collaborators in the field and the vigour of thinking and the extent of writing was truly remarkable. Gokhale himself was closely connected with all the three leaders of thought and with other important specialists and collaborators like Dinsha Watcha and G.V. Joshi. The very brief span of Gokhale's life was so fully occupied with a large number of public responsibilities that he never had the time and leisure to sit back and formulate a theoretical system or even a consistent frame for all his economic ideas. Gokhale has, therefore, to be considered not so much as an original economic thinker on his own account, but as one who exhibited most clearly and effectively the practical application of the ideas of his predecessors to economic problems facing the government and the country as they emerged.

In an assessment of Gokhale's work in this field, another feature must be noticed. It is that the vast bulk of his writings available to us is in the form of reports of speeches delivered by him and such items as the written and oral evidence before the Welby Commission or the Royal Commission on Decentralisation. The very form and occasion of these required focussing attention on a consideration of immediate practical problems and exposition of proposals for reform or criticisms of policy in relation to them. There was little scope here for getting down to fundamentals, for an analysis in depth or for broad generalisations. It may also be that Gokhale was by nature and inclination more of an acute analyst of current problems and not interested in theoretical formulations.

### *Reasons of Indian Poverty*

The pattern of activity into which circumstances seemed to have led or forced Gokhale made it natural for him to begin by an accept-

\* Lecture delivered on the occasion of the birth centenary of G. K. Gokhale in May, 1966 and published in *Gokhale, The Man and His Mission*, Servants of India Society, Poona, 1966, pp. 41-68.

ance of the structure of ideas very recently evolved by his immediate predecessors. Gokhale regarded Ranade as his Guru and Ranade was the main theoretician of the emergent school. On this account also Gokhale might not have thought it necessary to devote much attention to further theoretical explorations as to the practical applications of the formulations made by his Guru. As indicated above, the work of this formulation is to be mainly attributed to three great men, in chronological order — Dadabhai Nowroji, M. G. Ranade and R. C. Dutt. Dadabhai identified the basic problem of Indian economy as that of poverty and in his analysis the main responsibility for the continued poverty of India was held to be that of the peculiar organisation and operation of British rule in India. The main elements that Dadabhai identified as being responsible for the then existing conditions were heavy expenditure on such unproductive items as military operations and the maintenance of a large Indian army especially for the purpose of strengthening and extending the British empire; the non-participation and non-employment of Indians in government and in the services and the employment instead of highly paid British personnel and the home charges associated with the entire administrative and financial system : all these taken together led to a drain of resources from India to England which maintained the country in an impoverished condition.

This initial analysis of reasons of Indian poverty and its connection with the system of British rule in India was extended much further and given a theoretical basis by Ranade. Not only on the political plane but also on the economic, he emphasized the evils of the establishment of an unregulated connection between the strong and the weak. With economies in different stages of growth, and an unequal state of development, contact under *laissez faire* conditions leads to imposing special disabilities on the weak, such that the weak can never get stronger. This thesis Ranade establishes not only with a wealth of reference to the writings of western economists, but also by drawing attention to actual developments within the Indian economy. The ruin of Indian indigenous industry, the process of what he called the ruralisation of India, flowed directly out of unregulated operation of economic forces after the establishment of India's close connection with the most advanced industrial economy of the period, that of England. As long as the effects of this were not neutralised there was no way of stopping the continued deterioration of Indian economic conditions. Ranade was not a revivalist or an anachronistic thinker. He accepted as inevitable the transition from an older type of economy to a modern industrialised society. He was aware that certain changes in the internal balance among social classes and economic interests were inevitable concomitants of this process. However, he emphasized

that without proper regulation or guidance of external relations or of internal evolution, the process led not only to unnecessary distress but even to retardation of the desired progress.<sup>1</sup> He was, therefore, in favour of the adoption of a policy of active management by government with clearly defined objectives.<sup>2</sup> Apart from making these broad general formulations for not only explaining what was currently happening in the Indian economy, but also for providing the base on which the approach to proper State policy in India could be framed, Ranade provided a number of illustrations of concrete applications of these generalisations in the context of the rise of modern industry, internal movements of population, external migration, etc.

### *Dutts' Historical Studies*

Dutt, whose most important studies were historical gave a detailed account as to how the forces identified by the earlier thinkers had in fact operated through the previous century. In his major work on the economic history of the British period, Dutt drew attention to the continuing expansion of British political rule and the burden imposed by it on Indian revenues and to the continuous ruination of established Indian industry. However, Dutt was also specially concerned with some other aspects of the problem of Indian poverty. During the last four decades of the 19th century, India was subject to such a large number of widespread famines and epidemics that every student of public affairs was forced to attempt to understand and explain the frequent incidence of these widespread calamities. As a result of this attempt a number of special problems were identified. Perhaps the most important among these was the level of the land revenue demanded, its system of administration and the relation of both to the economy of the cultivator. The high incidence of land revenue and rigidity in its collection were held responsible for the chronically weak financial position of the cultivator and, especially in the tracts where the crops were insecure, for landing him into high indebtedness with a number of disastrous consequences which were evident more and more in many parts of India. The disastrous consequences of many of the revenue settlements of the early period of British rule in India and the impropriety and unsuitability of the systems evolved later formed an extremely important theme of

<sup>1</sup> "The Advanced Theory concedes freedom where the parties are equally matched in intelligence and resources; when this is not the case, all talk of equality and freedom adds insult to inquiry."

<sup>2</sup> "The State is now more and more recognised as the National organ for taking care of National needs in all matters in which individual and cooperative efforts are not likely to be so effective and economic as National Effort". Ranade : Lecture on Indian Political Economy.

Dutt's classic economic history. Dutt himself starting from a relatively mild position in this regard went on to advocate universal permanent settlement of land revenue as the only remedy. Others were content with less radical proposals. However, all were agreed that the pitch of the assessment as well as the mode of its collection required drastic change and that the existing systems were responsible to a very large extent for aggravating and perpetuating the effects of the incidence of recurrent scarcity conditions on the bulk of the small cultivator class.

Another concrete problem highlighted by Dutt was that of the relative merits of capital expenditure on railways and irrigation. Expenditure on railways led only to the opening up of the country without a regulatory and development policy on the part of government merely exposed larger and larger areas of the country to exploitation by the stronger economy and interests representing it. Irrigation, on the other hand, led to increase of production directly through more intensified agriculture and through its stabilising effect by affording protection against variations of seasons; it thus basically strengthened the economy. Whereas, the latter had a direct developmental effect making for greater and more secure production, the former merely opened and integrated a backward economy and the effect of this was not necessarily good. These were various strands of a powerful unified system of thought developed by constant contacts among the leading thinkers and by continuous application in relation to practical problems by them and their followers. The system was almost universally accepted by Indian thinkers and publicists in the last decade of the 19th century. This was the decade during which Gokhale first emerged as an important public worker.

### *Gokhale's Contribution*

On Gokhale, with his special position in the Legislative Councils fell the responsibility of applying to practical day-to-day problems the system of thought built up by his predecessors. The major contribution of Gokhale was to establish the validity and cogency of this system by demonstrating its utility and efficacy in providing appropriate answers to varied economic problems arising out of developing circumstances. In doing this he elaborated and refined many parts of it, made adjustments in it and, when necessary, even set aside, at least temporarily, some of the minor formulations or emphasis. I shall be concerned to-day with a review of this aspect of the contribution of Gokhale.

Gokhale's contribution was made over a relatively short period. His first major piece was the evidence given by him before the Welby Commission in 1897. His last important public work was in relation

to the Islington Commission which had not completed its labours when he died. We do not have any detailed authentic record regarding Gokhale's work in relation to the Islington Commission. Sir Abdul Rahim in his minute of dissent to the Report of the Commission states that he had consulted Gokhale on the subjects under reference and that the main proposals contained in Sir Abdul Rahim's minute had Gokhale's entire approval. However, in the absence of detailed supporting testimony it is not possible to state what views Gokhale would have expressed, if he had been with the Commission till its end.

Among his published writings the last speeches relate to the sessions of the Imperial Legislative Council held in 1912. The record before us, on which to base an estimate of the nature of Gokhale's thought, thus relates to the short period between 1897 and 1912. As indicated earlier, almost everything that has been preserved in relation to the expression of views by Gokhale is in the nature of evidence before Commissions or speeches in Legislative Councils. It is natural, therefore, that the view one gets is that of Gokhale as a political economist. The description given above of the views of his predecessors and their origin makes it clear how this school of Indian economists was necessarily one of political economists. They were concerned primarily with the causes of Indian poverty, but in analysing these causes they took a comprehensive view and gave equal attention to political, administrative and social factors along with the economic. Gokhale followed this tradition and on account of the very nature of his activities, had not the leisure to indulge even in such partially theoretic work as Ranade undertook.

In most of his speeches the general approach of Gokhale is clear. It is interesting to recapitulate the analysis made by Gokhale of the origins of the then existing Indian financial situation in the evidence he gave before the Welby Commission. His summary of the whole position refers firstly to the elimination of the buffer of Company's Government which to some extent previously protected Indian interests. Gokhale held that there was afterwards no effective constitutional safeguard against mis-application of the revenues for extra-Indian requirements; that the government of India as then constituted could not be much interested in economy, and neither in England nor in India was there a salutary check of public opinion on financial administration. The remedies, he suggests, following this analysis, relate largely to constitutional and political arrangements and the bulk of the evidence is devoted to a detailed analysis of expenditure to prove how there is no check on its growth or against its mis-application for extra-Indian requirements and how in relation to expenditure, which would be specially helpful to Indian interests, such

as that on education, there is very inadequate discharge by government of its duties towards the people. It is interesting to see how this point of view persists throughout. For example, in moving, in 1911, his resolution regarding the institution of a public enquiry by a mixed body of officials and non-officials into the causes which led to the great increase in public expenditure in recent years, Gokhale surveys recent fiscal history and prescribes the following main remedies. (i) spirit of economy in place of spirit of expenditure, (ii) substantial reduction of military expenditure, (iii) larger employment of Indians in Public Services, and (iv) provision for independent audit. Gokhale's analysis throughout the period is thus informed by a specific point of view relating to the situation in India.

Undoubtedly, during the course of time the situation changed and special circumstances arose which made it necessary for him to give particular attention to different subjects. Thus, in the early years of his career in the Imperial Legislative Council, the emphasis of his criticism was different from that in the evidence before the Welby Commission, because of greatly changed circumstances. Already, the financial position of the Government of India had eased and a substantial surplus had begun to emerge. Gokhale attributed these surpluses mainly to the appreciation of the rupee as a result of the recent policy regarding the management of the currency. The appreciation had resulted in a considerable lessening of the burden of home charges and yet the burden of taxation which was imposed in the previous decade not only because of the adverse exchange rate but also because of the extra expenditure in relation to famine, plague, etc. remained unchanged. The result was a series of surpluses whose existence and utilisation Gokhale emphasized, did a double wrong to the country. Firstly, the burden of taxation continued at a level which was very difficult for a poor country to bear. Secondly, the surpluses were used in ways which were not appropriate and which did not directly benefit Indians or the Indian economy. He also added that the very existence of surpluses continued to encourage further increase of wasteful and unproductive expenditure.

#### *Taxation and Expenditure*

It is in this context that Gokhale carried forward in detail a concept which had been formulated by the earlier economists. This was the close connection between the collection of revenue and its utilisation. This intimate connection between taxation and expenditure had been earlier emphasised in statements such as that the British were non-resident conquerors and that, therefore, the tribute taken away by them did not benefit the country even as much as the wasteful expenditure of the Moghuls. The continuous opposition of the earlier writers

to increase of revenue was related either to its wasteful use or to its use in directions which did not serve Indian interests. This point of view Gokhale elaborated in his speeches in the Council year after year. He vehemently denounced surpluses and, in the first instance, he asked for the abolition of the most unfair impositions such as those of the salt duty. He described the Indian tax system as highly regressive and pleaded for relief in directions which would benefit the poorest classes such as by reduction of the salt duty and by lowering the pitch of the land revenue assessment or by limiting increment of land revenue at periodic revisions. Equally, he was against the use of surpluses for abolition, or for reduction of debt or for use in capital expenditure such as those of the construction of railways or for building the new capital of Delhi.

These fiscal views of Gokhale have a surprisingly modern ring. He took a comprehensive view of the whole operations of government and subjected them in toto to the criterion of benefit to the public; especially to the poorest classes. Thus in discussing individual measures of taxation we see him on the one hand, asking for a complete abolition of the salt duty as early as possible and abatement of the burden of land revenue but, on the other, opposing reduction of the income-tax exemption limit below Rs. 1000 and contrasting the relative effects of the import duty on sugar and on petroleum. He is not keen on lowering the import duty on sugar because, he states, the poorer in the country do not consume sugar. On the other hand, petroleum, a term used instead of the term kerosene now in general vogue, is employed, he points out, in the remotest hamlets and by the poorest. He took a similarly discriminating view of what may be termed the political imposts. While speaking, in 1911, on a resolution recommending the abolition of the cotton excise duties, he surveyed the fortunes of the Indian cotton industry in the recent past and felt not quite sure that there was such a strong case for the abolition of these duties from the standpoint of the condition of the industry. However, he went on to point out that except in abnormal times, the burden of the duties fell on the consumer and that as the consumers of the roughest counts are the poorest of the poor, the cotton excise duties were a most objectionable impost and should be done away with. As usual he followed this insistence on abolition with a concrete practical proposal of limiting the duties to the higher counts only. We thus have a constant and detailed criticism of individual items in the light of the general criterion adopted by him and his predecessors.

In one respect the changed circumstances made it possible for Gokhale to go on to elaborate a set of positive proposals. Because of the opportunity of discussing the budget in the Imperial Legislative Council, it was now possible for Gokhale not to remain content with



a negative view and to advocate merely reduction of taxation and curtailment of expenditure but to talk positively of directions in which it would be possible and beneficial to undertake new expenditure. For all the ten years that he was a member of the Imperial Legislative Council, the continuous emphasis of Gokhale is on measures for the uplift of the people. In his famous budget speech of 1906 there is an elaboration of what one may call the programme of beneficial expenditure, or in modern terms, welfare expenditure. The first item was a reduction of the state demand on land; next, a resolute attempt to rescue the Indian agriculturist from the load of debt; thirdly, the provision of facilities for encouraging thrift and the provision of credit to the agriculturist; fourthly, promotion of irrigation and scientific agriculture; fifthly, promotion of industrial and technical education; sixthly, primary education : in which the first step was to make primary education free throughout the country, the next step was to make it compulsory, initially, for boys in presidency towns. The area of compulsion was to be gradually extended till at last in the course of twenty years, a system of compulsory and free primary education is spread throughout the country and that for both boys and girls. Lastly, the pressing need of works of sanitary improvement such as good water supply and drainage. It has to be remembered that this is perhaps the first programme of development expenditure that a responsible Indian politician put before government as a practical proposal; in the light of later developments it is remarkable how comprehensive it is and how it foreshadowed substantially the steps that later Indian ministers and independent thinkers were to advocate.

### *Capital Expenditure*

In relation to the capital expenditure, it is remarkable how Gokhale at the time insisted on not using revenue surpluses for wiping out debt. He maintained that the unproductive debt of India was negligible and its further reduction unnecessary. He further maintained that all large capital expenditure could and should be financed by borrowing and that all the surpluses should be used for expenditure for the welfare of the people or for developmental expenditure. As regards capital expenditure we find him preferring protective irrigation to the railways in the manner of his predecessors. In the matter of channelisation of development expenditure, Gokhale elaborated his ideas as circumstances changed. During the earlier years, we find him advocating the use of surplus for welfare schemes by giving grants out of the surplus, for the purpose, to provincial governments. To the objection by the Finance member, that such surpluses were in the nature of windfalls and entirely uncertain and that to make allotment

subject to arbitrary factors would involve wastage on works or of the work being delayed after being undertaken, as a result of one surplus not being followed by another surplus, Gokhale retorted that the difficulties could be met by funding the amounts with provincial governments. He suggested that different provincial governments would receive allotment which they might temporarily hold as part of provincial balances. They will have before them a programme of projects and they will offer assistance to such of them as appear the most urgent. It should be laid down that no assistance should be offered unless the whole of the money required to meet the liability is there in the balance. When a second surplus is realised and fresh allotments are received other projects can be taken up for assistance in the same way. This was in 1908. At this time it is clear that Gokhale was thinking merely in terms of surpluses which accrued or which emerged not through deliberate action but through historical reasons. In 1912 his ideas had advanced much further. He was now thinking of fully adequate resources being made over to local bodies and in doing this he was willing to take much bolder steps. His changed point of view is brought out in his reply to the debate on his resolution for the appointment of a committee to enquire into the resources at the disposal of local bodies. He said : "Then the Hon. Member says that recently grants have been given for sanitation. Yes, but they are non-recurrent grants. You may give non-recurring grants from time to time whenever you are in a mood to do. What I want is large recurring grants regularly provided out of the budget for local bodies. The provision should be independent of what the state of the finances may be — prosperous or otherwise. I shall not object to additional taxation if necessary in order that this provision might be made. Education, sanitation and communications are services that require to be looked after quiet as well as those that the Imperial Government has taken charge of."<sup>3</sup>

### *Federal Finance*

Another important subject on which Gokhale developed his ideas and was in advance of the position of his predecessors was that of federal finance. Gokhale was always greatly concerned with the position of local bodies and with their financial resources. He was so concerned because he felt that it was these bodies which in the ultimate analysis bore the burden of carrying out most of the activities that were directly beneficial to the people at large. He was continuously referring to what he called unfair distribution of revenues between the imperial and the local services. In one of his speeches he compared

<sup>3</sup> *Speeches and Writings of Gopal Krishna Gokhale*, Vol. 1. Economic, Ed. Patwardhan and Ambekar, 1962, p. 383.

this distribution in England and France with that in India, and summarised the position as follows : "In India it will be found that even including government expenditure on police, education, and medical relief in local expenditure — I include the police among 'beneficial' service with considerable hesitation — we still find that the Central Government took last year about 40 millions out of a total of 50 millions for its own purpose *i.e.*, four-fifths. Of the remaining 10 millions, too, more than half, nearly two-thirds, was administered by the State itself, only a little less than one-half being administered locally."<sup>4</sup>

In his evidence before the Royal Commission on Decentralisation, Gokhale submitted an elaborate scheme of provincial devolution of finance. It not only contained ideas which had been sponsored earlier by Indian economists such as that there be a clear separation of revenue heads between provincial and the imperial governments instead of the current quinquennium settlement of provincial grants but also went so far as to suggest that the major increasing sources of revenues should be given over to the provinces and that the deficit in imperial finance thus created be met by contribution from the province. In a similar manner he suggested that the available resources for local bodies be made over wholly to taluka boards, as he considered that village panchayats and taluka boards were the really important organs of local government. Gokhale thus tried to secure that provinces and taluka boards be vested with own funds and be not dependent on *ad hoc* or periodic grants from the imperial government. This interesting scheme was connected with a series of checks and balances which throw considerable light on the political philosophy of Gokhale also. It is obvious that the plan of financial devolution presented by Gokhale to the Commission was an elaborate and bold scheme of federal finance in which the balance was deliberately tilted in favour of the lower level authority in a manner that was exceptional and unprecedented.

### *Agricultural Credit*

Membership of the legislative council made it possible for Gokhale to elaborate his ideas in other directions also and the most remarkable feature of this elaboration is the attention to detail and the highly practical down to earth attitude exhibited by Gokhale in all matters of economic policy. It is, for example, remarkable how in a number of ways he anticipated a great many future developments in his speech in 1904 on the bill to provide for constitution and control of co-operative credit societies. He insisted here as elsewhere that the liquidation of existing debt was a necessary precondition for the success of co-operative credit societies. He expressed the apprehension

<sup>4</sup> *Ibid.*, p. 378.

that unless safeguards were introduced, moneylenders may come to control the societies. He went on to point out that the unlimited liability may deter people from joining such associations. Further, he emphasized that the weakest part of the scheme related to the provision of funds. He pointed out that societies were allowed to receive deposits from their members and borrow from outsiders and that no other financial resources were provided for them. "In India, as regards deposits, looking to the condition of economic exhaustion and material resourcelessness which at present prevails in the rural parts, such deposits from those who might join these societies cannot be expected to flow in either fast or in any large volume."<sup>5</sup> He therefore suggested that the societies should not be left to shift for themselves as isolated units, but might be allowed to be federated into unions linked to a central bank. Further, the district central banks might be linked on to the Presidency Banks, one for each presidency or province. "Some such scheme of filiation might materially help these societies and to a large extent remove the difficulty of financing them."<sup>6</sup> Lastly, he pointed out that the absence of some summary procedure to recover the debt due to the societies was also likely to interfere with the success of these societies. That Gokhale should have anticipated these difficulties and developments at this early stage is a tribute to his power of analysis and his mature and realistic thinking.

In the same way he took an integrated view of problems of agricultural credit and of tenure. His opposition to the Bombay Land Tenure bill was, as he insisted based on two grounds. In the first instance, he did not agree that prevention of alienation could be of any use unless other steps had been taken. On the other hand, he found specially objectionable the discretion given to the collector under the bill. This integrated view that he took of the total agricultural debt problems is brought out in the following sentence from the note written by him and Mr. Chhatre.

"The real remedy for the chronic difficulty of the ryot must be sought in the promotion of non-agricultural industries to relieve the pressure of surplus population on the soil, a better organisation of rural credit, and abatement of the State demand where it is excessive and a statutory guarantee in the absence of a permanent settlement of his demand, that the assessment will not be raised at the time of revision unless there has been a rise in prices and that the increase will not be more than a certain proportion of the rise in the latter."<sup>7</sup>

<sup>5</sup> *Ibid.*, p. 274.

<sup>6</sup> *Ibid.*, p. 274.

<sup>7</sup> *Ibid.*, p. 424.

Even more remarkable is the proposal made by Gokhale for a pilot experiment in relation to the relief and rehabilitation of agriculturists. This he put forward in his budget speech in 1906. He said, "The best plan will be to take in hand an experiment on a sufficiently large scale over a selected area in each province. Thus take the Deccan Districts in the Bombay Presidency. It is the opinion of competent authorities that quite one-third of our agriculturists, if not more, have already lost their lands, and they are remaining on them merely as the serfs of their moneylenders. Now I would take the cases of such men first, and I would appoint a special tribunal to go round and look into each case, going behind the bond where necessary, and I would have a composition effected, either by amicable arrangement, or by exercise of legal powers, with which the tribunal may be armed. I would place, say, a million sterling at the disposal of the tribunal, out of which advances should be made to clear the debt, to be recovered by adding about 4.5 per cent on them to the land-revenue demand of the State — 3.5 per cent for interest and about 1 per cent for repayment of capital, the repayment being spread, over fifty years or so. Having helped to free the man in this manner, the Government may then fairly claim to impose restrictions on his powers of alienation."<sup>8</sup>

This shows equally close analysis and clear grasp of the real situation and ability to frame in detail a practical proposal to tackle with it.

### *Currency Management*

Perhaps the best illustration of the deliberate, realistic, integrated and independent thinking of Gokhale is the position he took on the problem of the management of the economy and in relation to free trade. In apparent contradiction to the position of Ranade, Gokhale preferred automatic adjustment mechanism in a number of actual contexts. His approach may be exemplified by what he has to say in relation to the management of currency :

"Situated as India is, you will always require, to meet the demands of trade, the coinage of a certain number of gold or silver pieces, as the case may be, during the export season, that is for six months in the year. When the export season is brisk, money has to be sent into the interior to purchase commodities. That is a factor common to both situations, whether you have an artificial automatic gold currency as now or a silver currency. But the difference is this. During the remaining six months of the slack season there is undoubtedly experienced a redundancy of currency, and under a self-adjusting automatic system there are three outlets for this redundancy to work itself off. The coins

<sup>8</sup> *Ibid.*, p. 103

that are superfluous may either come back to the banks and to the coffers of government, or they may be exported, or they may be melted by people for purposes of consumption for other wants. But where you have no self-adjusting and automatic currency, where the coin is an artificial token of currency such as our rupee is at the present moment, two out of three of these outlets are stopped. You cannot export the rupee without heavy loss, you cannot melt the rupee without heavy loss, and consequently the extra coins must return to the banks and the coffers of government, or they must be absorbed by the people. In the latter case, the situation is like that of a soil which is water-logged, which has no efficient drainage, and the moisture from which cannot be removed. In this country the facilities for banking are very inadequate, and therefore our money does not swiftly flow back to the banks or Government treasuries. Consequently the extra money that is sent into the interior often gathers here and there like pools of water, turning the whole soil into a marsh."<sup>9</sup>

#### *Protection and Free Trade*

Gokhale's views on problems of protection and free trade were largely determined by reference to the political situation and the condition of the masses. In supporting a resolution in favour of the abolition of cotton excise he referred to the interests not of the industry but of the general consumer. It was while supporting this resolution that he made a remarkable statement regarding free trade "reasonably applied" as being the best policy for India. He argued the case as follows :

"Now, Sir, most countries have adopted protection as their economic policy. It is, however, necessary to remember that there are two kinds of protection, the right kind and wrong kind. The right kind of protection is that under which the growing industries of a country receive the necessary stimulus and encouragement and support that they require, but under which care is taken that no influential combinations, prejudicial to the interests of the general community, come into existence. The wrong kind of protection, on the other hand, is that under which powerful influences and combinations and interests receive assistance to the prejudice of the general community, the general taxpayers of the country. And I believe that the right kind of protection, if available, will do good to India. But, Sir, situated as India is, I fear there is no likelihood of that kind of protection being available to us; and it is my deliberate conviction that, in our present circumstances, a policy of Free Trade, reasonably applied, is after all the safest policy for us."<sup>10</sup>

<sup>9</sup> *Ibid.*, p. 386.

<sup>10</sup> *Ibid.*, p. 331.

That he was never dogmatic and had not a closed mind was made clear by the position he took in relation to a resolution moved by Pandit Malaviya in favour of affording protection to the sugar industry. To this resolution he moved an amendment suggesting the appointment of a Committee of Inquiry. He argued that there should be an inquiry before any protective action is taken, that in view of the existing political situation help should be given to the industry without prejudicing free trade principles, and that in any scheme of protection the first concern should be with safeguarding the interests of the cultivator. He was also apprehensive that the high protective duty needed to stabilise the position of the mainly English manufacturers of sugar in India would impose a heavy burden on the most numerous class of Indian consumers of sugar; this he defined as being those with an annual income between Rs. 100 and Rs. 1,000.

#### *A Political Economist*

Finally, I would return to illustrate and emphasize the point made initially that Gokhale was essentially a political economist; he took a total view — political, administrative and economic — of every problem and arrived as a result at a firm and an integrated position. A remarkable instance is the scheme he presented to the Decentralisation Commission relating to federal finance. The proposals regarding division of heads of revenue in this were linked with a number of other original proposals such as the denial of the right of taxation to provincial governments and local authorities. Moreover, his proposals were subject to basic conditions relating to the reorganisation of the provincial governments providing for a modicum of popular participation. In his oral examination he stuck with tenacity to the position that there should be no material delegation of powers to the local governments as long as the present official system continued. To the following question put to him by a member of the Commission who was an I.C.S. officer, "I understand that unless you can get reform exactly in the way you want, though you admit the existing system is hopelessly ill-adapted to the present needs of the country, you would prefer it to go on", he replied with a firm "Yes".

The paramount importance attached to political aspects and to Indian interests in consideration of every economic problem may be further brought out by reference to his views on railway management. His elaborate argumentation in favour of government management of railways is supported by many political and administrative considerations related to the economics of the problem. He says :

"I would now like to make a suggestion, and that is that I think it would be very desirable if State railways were managed by the State instead of their being managed by companies. I know this is a question

about which there is difference of opinion, but apart from other things — whether the thing would be immediately more costly or less costly, on that I have heard two opinions — there is one distinct advantage which I claim for this, and that is that in the end State management will be more economical. You compare the ordinary public works list — the personnel of the Public Works officers with the personnel of Railway officers. Throughout you will find a practical exclusion of Indians from the higher ranks of the railway service. Whereas in the Public Works Department a considerable proportion consists of Indians, in the Railway service it is only here and there that you find an Indian; for the most part Indians are carefully shut out. Now, if all these railways were managed by the Government the Government would, in the first place, be more sympathetic with our aspirations than Boards sitting in London, and secondly, the Government would be more responsive to any pressure of opinion put upon it. The Boards being in London, we may say what we like, they go on doing what they please, and the agents here must obey their directors there. Therefore, as long as the management is in the hands of Companies, the exclusion of Indians from the higher ranks of the Railway service must continue, whereas if the management were to pass over to the Government, there would be a more steady employment of Indians in the higher ranks of the service, and this in due course is bound to lead to greater economy in the management of railways.”<sup>11</sup>

Lastly, I may refer to Gokhale's stand in relation to Indian indentured labour abroad. He refused to countenance the system and fought continuously for its abolition. He found the system inherently wrong and objectionable; he was appalled by the human misery and frightful immorality associated with it and he thought its continuance degrading to the nation. As compared with these features, he found the alleged advantages of remittances received and the surplus population removed as utterly negligible. In this as in other matters though his approach remained that of his predecessors, he did not hesitate to differ from them, if on a close examination of the question he came to different conclusions.

The political circumstances within which Gokhale laboured exist no longer. We are faced today with an entirely different set of political and economic problems. However, Gokhale's example, his method and his approach continue to be relevant in the present. His was an example of unremitting methodical study, of careful, elaborate, logical exposition, of lucid fearless yet circumspect statement. He presented relevant data with great elaboration and was keen on adducing quanti-

<sup>11</sup> *Ibid.*, pp. 182-3.



tative information to the fullest extent possible. In view of his position vis-a-vis the rulers he found it necessary and desirable to furnish comparative data from other countries and he used international comparisons with great effect. However, transcending his deep and methodical study and full presentation in importance were his breadth of vision, the maturity of his judgment and the realism of his proposals. There is little doubt that the deeply religious, widely sympathetic and essentially philosophic nature of his *guru* Ranade had profound influence on Gokhale. At the same time, I feel that the maturity of judgement and the realism of his approach to problems was a unique feature of Gokhale himself. There is little doubt that all these qualities are required in a large measure in the present. The successful operation of a constitutional democracy can be based only on a deep study of problems, a constant and full exposition of their various facets, and moderation in the statement of opposing views; and the operations of a development plan in a poor country has to be closely linked to a sympathetic view of the condition of the masses and a bold, imaginative and yet a highly realistic approach to the preparation of plans and their implementation. It is thus extremely appropriate that we should attempt, at this stage, a fresh study of Gokhale and his methods and try to learn from his life and example.

## REQUIREMENTS OF INDUSTRIAL REGULATION\*

It may be useful to begin consideration of the question by looking at the situation during the inter-war years. During this period the Tariff Board acted to modify the existing regime of customs duties by recommending protective duties for particular industries. Each time the question was examined, a single industry alone was considered and that within a limited frame of protective policy. The protection given was for a definite period and was usually accompanied by specific recommendations relating to scale, technique of operations, managerial efficiency, etc. Within this system there was general guarantee that units in the protected industry worked up to minimum levels of efficiency and if they took undue advantage of their protected position to raise prices, that was also enquired into by the Tariff Board.

The situation in the post-war period, especially with planned development, is entirely different. Protection is now highly generalised as a result of a series of regulations such as that of industrial licensing and capital issue control. These put a limit on new entrants in any industry and on expansion because of the desire to avoid extra investment or activity in any direction. Even wider is the effect of that changeover from a policy of protective tariff to that of ubiquitous and detailed quantitative restriction of imports. The basic justification for this policy is the need for a drastic curtailment of imports. Secondly, it is also used as an instrument for discriminating in favour of specialised potential productive activity in the country. The result is an indefinite degree of protection to all indigenous production in which imports were or could be competitive and specially large margins for those whose competitive imports are very drastically curtailed or altogether prohibited. General restrictions on imports are treated as a matter of course and their costs to the consumer or to the economy are not calculated. Even where special discrimination is exercised in favour of any industry or branch, the judgement is usually made on the technical level, relating to the feasibility of production, and not in economic terms of costs, returns and essential competitiveness. Moreover, in neither case is a term to the period of protection contemplated; so that, apart from some vagaries of import policy the indigenous producers need never fear competition from imports. It

\* *Mahratta — Annual, 1967, pp. 4-6.*

follows that there are no conditions laid down as to technique, efficiency and scale, except such as may be enforced through industrial and import licensing. For obvious reasons these latter cannot be very meticulous as relating to each plant and there are no sanctions regarding what happens once the plant is set up. It is clear that the change is not only very large but that the total situation is not really under control so far as individual producers are concerned.

### *Policy of Quota-restrictions*

The justification for a policy of quota-restrictions is that it enables you to discriminate in a more detailed manner than would be possible through protective tariff duties and, even more, that it avoids raising the price level of imported supplies in a manner that a regime of high protective duties would. The latter consideration is of special importance in the context of a developing economy. Unfortunately, however, because no follow-up action is undertaken or even contemplated, quota-restrictions in India have failed to establish this advantage. A general sellers' market for industrial products, especially those in which imports play significant part, has been created and the large or small margin available in any product is fully realised and shared by producers and traders in the product in varying proportions. The internal prices of these goods rule at levels corresponding to those of high protective tariffs. Consequently, the State loses the income it would have obtained through excise duties, the consumers are mulcted and above all, the economy is deprived of those developmental effects which would have followed a regime of relatively lower prices.

### *Problems of Co-ordination*

The existing situation is serious and must early be brought under effective control. The above analysis would have made clear that an anti-monopoly approach is irrelevant in this context. A close analogy is that with the war economies of the West. Three levels and types of operations are necessary for adequate regulation. Firstly, the formulation and implementation of the overall plan of industrialization. In part, this work lies with the Planning Commission and the Industries Ministry. However, there are some broad problems of co-ordination involved which could profitably be entrusted to an independent authority. These relate to the co-ordination of the decisions relating to licensing, location, technique and size of the units and licensing of imports in each industry. In consumer goods industries, in particular, there will also be problems of common production plans and effective action regarding rural or decentralised industry. For want of a single authority taking a comprehensive view, action in

these fields is bound, as of today, to be inconsistent, conflicting and in some respects even self-defeating. The work of this authority has to be supported by a body which is continually studying the dynamics of the process largely through cost enquiries and through investigations into projection of change in structure, techniques, etc. The studies and data thrown up by this body would be the basis on which future plans are framed and current plans adjusted. A third authority is needed for overall determination and control of all relevant prices. It would be useful to keep this work separate from that of the second. This is so as, in the first instance, the price determination and control would have often to go much beyond the range of cost studies. It should be remembered that the price determination in this context is not similar to that of the inter-war Tariff Board but is like that of price determination in a war economy. Consequently this authority should be modelled on the lines of the O.P.A. in the U.S.A., during the Second World War.

#### *Economic and Technical Problems*

The work of the first authority, indicated above, has at least two important components. The first is concerned with problems of concentration and monopoly. In an economy which is being developed according to a plan, these problems arise not because of activities of large producers such as price wars or mergers but because of the policy of the State in limiting entries and granting protection. Therefore, a negative antimonopoly policy proves inappropriate and a positive policy which seeks to eliminate or limit the adverse effects of sheltered markets and to distribute economic production privileges, as widely as possible, has to be evolved. The second relates to the regulation of technological change. The size of our work-force, the extent of traditional industry and the paucity of capital make this a crucial aspect of our plan of industrialisation. Unless this is carefully thought out and implemented, the economy is bound to run into trouble. This twofold work overlaps the work of many ministries and is concerned with the sphere of the centre as well as of the states. This authority, therefore, will have to be equipped for thinking out economic and technical problems in detail and for co-ordinating policies at the highest level. The work cannot be left to a unit in any single ministry.

#### *Competent Price Authority*

In view of the experience of the Tariff Commission in cost studies, the work of the second authority indicated above could well be entrusted to the Commission. The Commission may have to be specifically

reorganised for the purpose. The idea of co-ordinated price control has not yet been fully accepted in India. The work of the short-lived Commodities Price Board represents the only effort, so far, in this direction. With the setting up of the Agricultural Prices Commission, the concept of co-ordinating controlled prices, at least in one sector, has become accepted. It is important and urgent to extend this acceptance to all strategic prices which are partially or fully regulated. It is only when this is attempted that the patent evils of the existing dispersed and *ad hoc* action will be eliminated and full and proper view will be obtained of the requirements of regulating the economy. This will require the creation of a competent Price Authority with comprehensive powers.

## ECONOMIC CHALLENGES ON WORLD SCALE\*

I HAVE been asked to talk about the challenges facing the world community in the economic sphere, especially those that are likely to affect the peaceful progress of the world. This is a large assignment and my address will be brief. I, therefore, select for treatment only two major issues. I shall also treat these issues from the point of view with which I am familiar, that of a large, poor, under-developed country — India.

The first issue with which I deal is that of poverty. It is well-known that a small number of nations in the world are advanced industrially and enjoy a standard of living that entitles them to be called affluent. At the other extreme are countries with very large populations where a large proportion of the inhabitants are poor and live in want. Among these are included countries with very large populations, such as China, India, Indonesia and Pakistan.

The existing situation is culmination of a trend that started some centuries ago. This was initiated by the leap forward in knowledge, particularly in science and technology, that took place in some western European communities. It led to the spread of European peoples over the world, in many parts of which colonies were established following extinction of the original inhabitants and in many others, especially the older settled countries, western dominance — political and economic — was established in various degree. This resulted in bringing the economies of the countries of other continents into close connection with European countries and in giving a special direction to political, economic and social developments in these countries. Western colonialism has recently declined, and most peoples in Asia and Africa now enjoy independence. However, their present situation is powerfully influenced by the historical period of European dominance. Because of this they have been integrated to a varying degree in the stream of modern history and have accepted, in varying measure, ideas and products originating in the West. However, their progress has not been uniform on all fronts and, as a result, they exhibit a lack of balance in many respects. Attention may be drawn to a particular aspect of this situation. Recent rapid progress in public hygiene and

\* Text of a talk given at the 18th International Congress of Women's International League for Peace and Freedom, New Delhi, December 28, 1970.

medicine has upset, within a short period, the previous balance of births and deaths, and most of the under-developed countries find themselves with a very rapidly growing population. At the same time, their system of production remains much as before. Most of these countries still depend largely on primary production and have been unable to make any progress in industrialisation chiefly because of continued colonial rule. Thus, whereas a balance between birth and death was achieved in the western world over a series of decades in which progress in medicine and hygiene went side by side with progress in industrialisation and urbanisation, the situation in the under-developed countries is very different. These have to cope with the results of a very high rate of growth of population while their economies are still backward. Backwardness makes it difficult to cope with the problems of bringing down the high birth-rate, and the rapid progress in population, in its turn, creates difficulties in the pace of industrialization of the economy.

The division of the world into poor and rich, the advanced and the backward, is no doubt an old problem. The evolution of its modern version has also taken place over the centuries. However, it could be said that the concern with the problem is something that is new. During colonial rule it was taken for granted that economies of dependent countries should be fashioned as complementary to the economies of those governing them; that economic policies should be directed so as to redound to the benefit of the governing European peoples was almost unchallenged, even in theory. It is chiefly after the end of the colonial era at the end of the Second World War that the problem as it is being visualised today may be said to have emerged.

A number of factors have contributed to considerable attention being given to this problem in recent times. In the first instance, this has been due to clash and competition of ideologies. Planned progress of the USSR under communist rule appeared to indicate that economic progress could be accelerated according to a plan in under-developed economies and it began to be claimed that the path chalked by Russia was suitable for other under-developed countries, such as those of Asia, Africa and Latin America. Poverty and development thus became involved in the clash between ideologies. It was obvious that in the face of claims made by the USSR, countries of the capitalist world had to place a viable alternative before the developing countries. Competition was thus begun for the allegiance of, what was called, the third world. Each side had to demonstrate that its methods and prescriptions could accelerate progress in the under-developed countries, the capitalist countries having in the process accepted planning in a mild form as among their own permissible concepts.

The present situation is also due, in part, to the great change brought about by the technical revolution in the last quarter of a century. The most impressive way of stating the results of this technical revolution is that of saying that the world has significantly shrunk in size. Whether in terms of physical movement of men and goods or in the range of weapons and armaments or in terms of the transmission of concepts and ideologies an almost revolutionary change seems to have taken place during the last quarter of a century. It is now difficult for even large and powerful nations to suggest that they could live in isolation. It follows that most countries, especially those who aspire to the leadership of the world, have to give attention to problems of areas from which possible dangers can arise to their positions. The problem of poverty and lack of development of a large part of the world is perhaps the biggest of such problems. It is natural, therefore, for leaders of the world and for international organisations to give increasing attention to world poverty.

Lastly, the cumulative effect of rapid growth of advanced economies has further intensified the problem. The measure of difference between the rich and the poor, even in the colonial 19th century, was relatively small as compared with differences today. Also, this differentiation between the rich and the poor appears to be progressively increasing. It is clear that during the last three decades the progress of the gross national product of a number of advanced countries has been phenomenal and that, as a result, the distance between them and the under-developed countries has greatly increased, especially in absolute terms. This may be brought out by the following figures of relevant per capita income of, say, Japan and India. The per capita incomes of Japan and India in 1953 expressed in US dollars at current prices were 183 and 59 respectively. The per capita incomes of the two countries in 1967 expressed in US dollars at current prices were 921 and 75. Calculations available at constant prices show that between 1951 and 1964 the per capita income of Japan increased at the rate of 8.1 per cent per annum, the corresponding rate for India being only 1.8.

The concern with the problem of poverty which has recently grown has led to some action on the international plane. Since the end of the Second World War, economic co-operation among countries has reached a much higher level than ever before. The establishment of the UN and the establishment of the IMF were among the first steps. The Marshal Plan was a notable attempt at rehabilitation of economies by international action. After the success of this plan had been assured, attention turned to problems of continents other than Europe. International organisations, whose number continues to grow, designed a number of programmes to help what were called the under-developed



countries, and a number of advanced nations gave aid on bilateral terms also. The scope as well as extent of action has continuously extended. It no longer aims chiefly at relief of distress, as in previous times, but has meant support to long-term efforts of individual countries to develop their economies. In a small number of cases these efforts have proved remarkably successful. For the larger part, however, the results have not been striking. A number of factors have been held responsible for the relatively slow response in the developing economies. It has been said that this is due, in part, to the inadequate quantum of the aid and also to a number of conditions tied to the aid which make it very much less effective than it should be. The developing countries are now well represented in international organisations and have been conferring together to draw up targets and programmes for quanta of aid and types of other assistance which they would like the advanced countries to accept. For example, a target of 1% of the GNP given as aid to developing countries has been set before the richer nations for being attained during the next few years. Demand such as of united aid or a number of tariff preferences has been made and progress is being made slowly in some directions.

It yet remains true that the gravity of the problem of poverty of the under-developed countries has not been materially lessened during the last two decades. The growth of population has been an important factor in keeping the rate of increase of per capita income low, and the basic difficulty of the poor countries, *viz.* poverty, which means a paucity of resources in all directions, has rendered rapid advance difficult. External aid not only has been inadequate or not on sufficiently liberal terms but also has often been given for military and other ends which deflect the attention of countries as well as valuable resources from economic development. For a proper understanding of the problem of poverty of the under-developed countries it is necessary, in addition, to take a view of their internal difficulties.

Modern times are characterised by a continuously increasing pace of the development of techniques of production. The changes brought about by the industrial revolution have been followed by progress in technology which has attained an amazing pace within the last few decades. This continuous change in the techniques of production has led to the evolution of a structure of socio-economic organisations adapted to the new technical situation. Recently, the pace of the change has been so considerable that it appears to have taxed the capacity to adapt of even the advanced industrial countries. As has been indicated earlier, during colonial rule in the under-developed countries there had been selective introduction of western innovations and ideas. Also, in most countries under colonial rule, the rule had the effect of disintegrating the older socio-political structure. The societies were

thus rendered both less resistant and less adaptive than they had been before.

Further, the post-industrial-revolution era in the advanced industrial countries has been the era through which nation states have been formed. The nation-state type now dominates the world, in practice as well as in theory, and the more successful of these nation states are those that exhibit qualities of homogeneity and cohesiveness, discipline and aggressiveness. Modernizing the economy and making planned progress in under-developed countries involve not only the building up of the appropriate structure of socio-economic institutions but also the transformation of these countries into something like nation states.

The qualities required of a nation state or a modern developing country are usually absent in the under-developed areas of the world. This is fully exemplified by the case of India. Modern India was not, except under colonial rule, a single unit of administration of political organisation. It has characteristics of a continent, is divided into many linguistic regions and has people of different faiths and ethnic groups living at widely separated levels of development of culture. The older organisation of Indian society provided for a general loose frame into which groups and communities could live at peace with others but with no compulsive movement towards integration with them. In such a society an immigrant group could settle and live and prosper in peace for centuries together without losing its identity or merging with the general community. In such context the term general community had little significance. The society was a complex of specific communities or groups living in well-understood traditional relations with each other. Cohesion was strong within each group but there was little emphasis on the identity or cohesiveness of society as a whole. Such an organisation though well adapted to the needs of earlier times and making for survival is obviously not suitable in modern conditions.

In this context it may be useful to recall Dr. Myrdal's statement regarding Asian States being "soft". The criticism of Dr. Myrdal is perfectly valid in the sense that it is true that Asian States are unable to take firm, resolute, disciplined action in given directions even when leaders are convinced that such action is appropriate. This phenomenon has to be connected with characteristics which Asian States derive from the composition and structure of their societies. Imposition of discipline and resolute action imply a degree of cohesiveness and readiness among different social groups and strata to identify themselves with the general social good, and this is lacking in these societies. It has been indicated by keen observers that democracy as it functions in India is too free. This again is related to the inability of anybody to enforce discipline. In a loosely organised society with

numerous separate groupings and divided loyalties, attempts to impose rigour or discipline may lead, it is feared, to disintegration.

The older societies which were tolerant and hospitable and possibly because of the virtue of non-cohesiveness were non-aggressive today prove anachronistic. They have to be replaced by cohesive nation states which are disciplined and in which enthusiasm for working towards common ends can be built up. They must acquire the attributes of dynamism and efficiency. These are extremely important in planned economic development. Planning requires common acceptance of distant goals and ends, considerable agreement as to methods and procedures, the will and determination to work strenuously and persistently for planned objectives along pre-settled routes, efficient action by the state apparatus, and the ability in a poor country, to impose sacrifices and hardships on the people, or of the people to do this for themselves so as to achieve a distant end.

The difficult progress that the under-developed countries have to make is thus not only along the economic route but also along the socio-political. They have to undertake a transformation of their social organisation, create new bonds of cohesion and loyalty and have also to accept new values in the process. It should be remembered that the European peoples who are in the vanguard have themselves made these adjustments over centuries under favourable circumstances. The anciently settled under-developed countries are, on the other hand, faced with the problem of moving from one era into another within a matter of decades and to do this in circumstances which are highly unfavourable.

It may be doubted whether this compulsive trend towards making the potentially aggressive type of nation state universal, is in the real long-term interests of the world. While dynamism and efficiency are no doubt desirable and beneficial, it is equally necessary for world peace that states, in framing their programmes and policies, are not unduly influenced by considerations of short-term self-interest. However, in this matter of transformation the under-developed countries appear to have little choice. For progress, for sheer survival, they have to change many of their ways and have to follow, at least immediately, the trail blazed by the advanced countries. With a compact heavily interacting international community, the range of choice open to an individual people, particularly in a weak and poor country, is very narrow. The large desirable changes regarding fundamental values and the operation of national and international organisations can come about only with wide acceptance, especially among the dominant nations.

It is clear that progress towards the eradication of poverty of under-developed countries, is unlikely to be rapid. Change is bound

to be slow, internally and externally. In the meantime, with further technological advance, the inequalities between the poor and rich countries are bound to grow and international relations will be subject to greater strains. This will happen particularly so long as competing groups of states, divided by ideology or interest, perforce fish in the troubled waters of the "third world".

Many features of the existing situation are due to the recent rapid advance of technology. It is also in the further advance of technology that hope for the elimination of poverty lies. Attaining a balanced population and making it possible for the much larger population to derive adequate sustenance from exploitation of available natural resources can both flow only out of further advance in science and technology. At the same time, a number of directions in which it is making progress at present are such as to lead to considerable dangers for the world as a whole in the future. But, ill-directed advance is fraught with perils for the world. Therefore, the possibility of properly regulating and directing future progress of technology is extremely important not only to solve the problem of poverty of nations but also for world peace.

At present it cannot be said that technological progress is well-directed or, in fact, directed or regulated, in any manner externally and as a whole. In the absence of such direction a number of acute problems have come to surface. The advance of armaments and nuclear technology is the most important of these. Here is a direction in which fundamental scientific discoveries were followed up intensively to serve the purpose of war. It then became evident that rapid advance of nuclear technology in the service of war would endanger the very existence of mankind. As a result those possessing nuclear technology made some attempts to limit its spread. After a number of years a non-proliferation treaty was produced which has yet to obtain universal acceptance. The experience gained in the attempt to limit the spread of nuclear weapons has revealed clearly the difficulties of a piecemeal approach to such subjects as disarmament and universal peace. It is also shown how it is difficult to limit spread of scientific and technological knowledge except on the basis of universal consent. It has been pointed out, for example, that countries which are in a position to exploit atomic energy for peaceful purposes could, without a great deal of difficulty, make the transition to nuclear weapons. Therefore, unless the well-nigh impossible step of laying an embargo on the spread of atomic technology for peaceful purposes is taken, no real guarantee against an eventual proliferation of nuclear weapons can be maintained. Defence and security are of prime importance to all nations and with competing groups of nation states it becomes difficult to

eliminate the armaments race. The only effective way of securing a peaceful future is thus obtaining the consent of all nations to pursuing technological advance in peaceful directions and not further perfecting offensive and defensive weapons.

Another direction in which the dangers of technological advance have been strikingly brought to surface is in the effects of technological development on human environment. Economists have for long distinguished between individual cost and social cost. In a given framework of law and administration an individual may find it possible to pursue certain activities which redound to his own benefit but which in the long run may be socially harmful. After the industrial revolution the blight of smoke from factory chimnies came to be recognised as a social cost which was not ordinarily successfully brought home to the individual owner of the factory. With the rapid scientific and technological advance in recent years, man's ability to affect the environment through his activities has become so considerable that the problems posed by it can be tackled only at the national or the international level. In this case again it is the ability to regulate technological advance that appears as the crucial issue. The total effects flowing out of a particular set of scientific discoveries or technological innovations have to be worked out in advance not only in the totality of the physico-social environment but also for the very long-term. The ability to prevent use of particular items in the technological advance which do not pass the totality of the environment and long-term tests now assumes great importance for the future of mankind.

The possibility of directing technological advance need not be viewed only from the point of view of preventing harmful effects. The direction could be positive for goals specially desired. This could be illustrated from requirements of the under-developed countries. As of today the under-developed countries find that their special needs do not prove of relevance to applied scientific and technological work undertaken in the advanced countries. Where, therefore, they are likely to suffer from such advance, they are unable to protect themselves. An example of this is the progress of synthetics and their effect on the farming communities producing natural products in the under-developed countries. Through the last hundred years the under-developed countries suffered passively the harmful effects of the development of synthetics on their economies. Today some of them undertake scientific work themselves in order to protect their position. However, even when this happens the position remains highly unequal. In production of synthetic substitutes for natural products like rubber or jute, the capacity of large corporations interested in the development of synthetics to undertake expenditure on research and develop-

ment is very much larger and more carefully and intensively directed than the capacity of the farming communities and governments interested in the natural production of jute and rubber. Moreover distribution of research and development expenditure could make natural production much more efficient and less costly than before and any necessary transition that farmers in a region have to make more smooth and less harmful.

Another example would be of the development of technology that is appropriate to the requirements of the under-developed countries. Many economists have pointed out that relative prices of capital and labour and their relative availabilities are very different as between advanced industrial countries and the under-developed countries. However, the dominant and advancing industrial technology has been evolved in the economic conditions of the richer, highly industrialised nations and many aspects of this technology are inappropriate in the present situation of the developing countries. The developing countries could with the same resources do much better if in a number of directions a technology more adapted to their needs had been evolved. The money and talent required for such attempts are, however, not available. This is because the capitalist or technologists of the advanced countries are not interested in the problem or, perhaps, even aware of it. On the other hand, the limited scientific and technological resources of the developing countries are all used up in borrowing technology from the advanced countries and establishing it in their own economies. Only a small part of the resources spent in research and development in the advanced countries give ample global returns if spent in this direction. However, this cannot obviously happen until an overall direction to technological advance can be given looking at the problem as of global welfare.

Technological advance is no longer a matter of individual effort or accidental results. Today its ends are deliberately set out and pursued with elaborate equipment by teams of scientists backed by enormous resources. But the direction given is governed by the interests of the entity undertaking and financing technological development. In the main, research and development are undertaken either by nations or by large corporations conducting economic activity on a national or international scale. The dominant interests of nation states have been defence and security. The dominant interest of the corporations is profit gained out of the production and sale of commodities and services. The view taken by each entity is necessarily limited by its own narrow and relatively short-term interests. It is obvious that if the present state of affairs continues, the adverse effects of technological advance are likely to become more apparent than its beneficial effects in the future. Not only for the elimination of poverty of the under-

developed countries but also for securing peace and prosperity of the world as a whole, it is vital to be able to regulate the direction and pace of future technological advance, to limit it in given directions and to encourage it in special ways and for special objectives.

The gravest economic challenge facing the world today is that of conditions of want in which large proportions of the population of the majority of countries of the world live. Solution of this problem requires resolute internal action by these countries, generous external assistance given with sympathy and understanding and appropriate technological progress. It is clear that progress in all these directions, especially the latter two, would be made only with the prevention of war and with the institution of international law and broadly based political, social and economic co-operation among the peoples of the world. All this would happen if and when the co-operative idea gains ascendancy over the competitive and when the co-operative pattern of behaviour is inculcated in peoples through their systems of education and through the operations of their socio-economic institutions.

## INSTITUTIONAL CHANGES FOR AGRICULTURAL MARKETING\*

I THINK it is necessary for all of us to realise that we are living in a time of institutional transition and that it is against this background of institutional transition that most problems have to be faced. I am not at all sure that the sort of micro-studies one does, for which alone we have data, really tell you about the long run. After all, the decisions have always to be about the long run benefits and costs of institutional changes. If you are thinking in terms of going over to public sector undertakings for certain types of trades or if you are thinking in terms of encouraging co-operatives, any society has to take a decision which is in a sense arbitrary. A decision has to be taken on certain very general estimates of possible costs and benefits. A good deal of it is hypothetical because in considering institutional working, a social scientist has to be aware of not only the institutional structure, but of the actual operation of that institutional structure. We can consider operation, for example, connected with the marketing of wheat in U.S. and Canada and the operations of food-grains marketing in India. They are both called free market operations but this is not very really profitable. You really have to understand the working of your private marketing system as it is. It has a great deal of constraints. It has a great deal of rather rigid traditional socio-economic structures that are involved in it and for judging actual operations all these have fully to be taken into account. I have not known such real studies at all. I do not know even the methodology that can be evolved where these long run comparisons can be made except on a very broad type of historical data. Prof. Kogekar came up with a difficulty of a secular price trend being considered as a factor which rendered nugatory comparisons over a large span of time. This difficulty, which is real, stresses the difficulties of anybody making up his mind on the basis of studies and data regarding what will be the good of adopting a policy. Policies have to be adopted either because of ideology or on only a reasoned expectation that they will prove good.

I do not know how many of you have known of the very different results that we have had during the last 20 years in India in relation

\* Special address delivered at the Seminar on "Emerging Problems of Marketing of Agricultural Commodities" held at Nagpur on 20th March, 1971, Seminar Series-X, The Indian Society of Agricultural Economics, Bombay, 1972, Mimeo., pp. 8-15.



to what we have called our co-operative policy. It was after the report of the Committee of Direction of the Rural Credit Survey of the Reserve Bank of India that a general policy was evolved by the Government of India and operated through the Government of India, State Governments and the Reserve Bank, in relation to encouragement given to co-operatives, linking credit system with marketing, the adoption of the crop loan system, encouragement of processing and setting up the Central Warehousing and Co-operative Development Board. Thus a general all-India structure was evolved. When recently detailed studies were made, and the results made available, it was found that at least in five states in India, this experiment had proved so unable to get off the ground that an entirely different concept such as setting up of Agricultural Credit Corporation in each state, in order to make credit generally available, was thought of. When we reviewed the experience, we found that we had to think separately in terms of some states where the policy was all right and where it could go on, others where some kinds of policy changes were necessary and some intermediate institutions had to be created and still other states where an entirely new policy approach had to be evolved. Thus starting with a generalised policy you could obtain working realism regarding co-operative policy only through stages. This need for continuous adjustment is difficult to get over.

There is another important aspect of policy making. It is that government policy is not necessarily evolved after great deliberation over the long term. A great deal of it is made in the short run and quite a number of times it is later on, that a certain number of short run decisions are sought to be, so to say, pieced together as long term policies. You may, for example, take any illustration like our food-grains policy, procurement and distribution etc. The type of general policy that we have arrived at now, was suggested early in the '50s by a number of administrators and economists who said that without a durable policy structure we could not really go on. However, it was only after the experiment of P.L. 480, reliance on P.L. 480 as a general cure for our problems of food scarcity, its effects on wheat production through prices and the impact of two famines that we really got on to this policy. And possibly this policy also is not completely durable.

You will thus find that general decisions regarding institutional changes are not going to be taken on micro-research studies at all; that even to the extent that states or state politicians do take policy decisions in the context of the findings of economists or the general social scientists, they are subject to so many pressures in the actual process of taking decisions that a number of decisions are just short run. I might be asked as to what relevance has this to the general

problems discussed by you. I am saying all this because I think it is relevant for the economists and administrators in determining the priorities of their work and the background of general structure of the frame of events in which it is conducted. For example, I think it would be extremely useful for the general administrator, who is thinking in terms of the improvement of the structure or improvement of the operations of the F.C.I. to have studies which look quite closely at a number of aspects of its working. As far as I can see the F.C.I., at least in the early years dealt with private trade and not with co-operatives; this is an extremely important phenomenon. There might be justifications; but whatever they are a study of facts regarding this and of what is at the back of these facts — is it the structure or is it the type of bureaucracy that the F.C.I. created or is it due to some local pressures; these are things which can be brought out in the studies. Now I find that there is considerable mention of the F.C.I. in these papers and I find the co-operatives have little mention. A comparison between the F.C.I. operations in certain states with the Maharashtra State Co-operative Procurement system should also prove extremely important. I deliberately say the system in Maharashtra because it is at present working as a system; can the system last, will it last, what are the circumstances, the basic conditions, which alone make it work both politically and economically; politically in the support of government and economically in the performance of the business that it runs and does it not show that these operations can be sustained only as integrated service over a long term. As a system, which can last, what are the possible merits of it as compared with the F.C.I. Even in the F.C.I. system it is contemplated that there might be State F.C.I.s. Here is an extremely important point. When a man like me looks at it, it appears obvious that the handicap of the F.C.I. is that they have no detailed local knowledge and they have no local staff on the ground. Would it be better wherever you have central agencies operating in a state, would it be better to combine a super-structure of a national organisation with an infra-structure of an essentially locally operating organisation within the state, which knows the state, which knows the local people and which can, therefore, deal with various problems in appropriate ways? Is it a better kind of structure than the other? Quite obviously we have to continue with the F.C.I. so that you have really a very important set of problems like these to study.

On the general policy you have already a decision by government that the basic crucial organisations and trading decisions shall, as far as possible, be in the public sector. We have already covered a great deal of ground in this respect. For example, the minimum support price for jute was declared. It was seen that it was operated for the first time through the mills organisation and the mill organisation

completely failed. They did not effectively support prices for whatever reason. This is an extremely important point to investigate. Is it merely because it was a private mills organisation and there were conflicting interests or is it because of some other reason? It was only when the S.T.C. was asked to enter the market that there was some support for prices of jute. Even today you will find that in the jute market, with the decision taken that the imports are to be canalised through a public organisation, you still have very large fluctuations in jute prices. I do not know whether any of you have had occasion to go through reports on jute marketing since about '30s; for, what they talked about the "fatka" market remains true as of today. This is another very important question that in spite of the reports and studies for so long a time, no action has been taken and as yet the jute support prices scheme is rather chaotic. I entirely agree with what Prof. Kogekar said that there is no justification for disturbing existing arrangements because you are doing something else somewhere. This is a perfectly legitimate point of view. Unless you are going to do something in the field and you have thought about it sufficiently in advance and, with a given risk, you think you are going to improve conditions, you should not make large changes.

When we again talk about the private structure of margins, of costs and so on, are we sure that we are talking of the costs of private trading over, say, the whole year? The relative costs of private trading are generally measured by price returns; but anybody who has had anything to do at all with co-operative marketing or inducing people to join co-operative marketing, knows how the prices can be rigged from time to time and what are the number of other factors, like weighment, quality etc. that enter into the transactions. I would personally not take at their face value the various statistical data compiled. These arise out of individual transactions of particular traders. And unless in interpretation you have a point of view, you can get very wrong results. I cite in this instance an example, which, I think, has relevance. Take the cutting and transport of sugarcane by co-operatives in Maharashtra. Right from the beginning, we had the model of factories which had their own plantations. With this model the first co-operative factory made a start right from the beginning for undertaking itself the whole of the cutting, harvesting and the transportation of cane within the factory limits. We had a list according to fields, according to their dates of sowing, we got the maturity dates and we merely told the cultivator when his cane will be cut. Because of that the cane was ordinarily crushed within 24 hours of its cutting. This is one of the important reasons for a significant difference between Maharashtra and U.P. In U.P. what you get is a system by which there is delivery either at the gate or delivery at the railway

station or, at a point and there is no incentive whatsoever for crushing cane very early. There is no incentive for the cultivator because the quality is judged as a whole and even the quality differentials begin above 9 per cent recovery and the average quality cane is less than 9 per cent. So whatever the cultivator delivers and whenever it is crushed, he is going to get the same price for it. So far as the manufacturer is concerned, there is no incentive because of the policy regarding prices of sugar. Obviously there is considerable national loss here. In Maharashtra co-operatives the more rational approach is adopted and justified because pricing of the cane is determined for the entire season and the cultivator and the factory share additional gains. In some period your recovery may go down to 8 per cent but the average may be 11 per cent and in good months such as February and March, it may be anything between 12 and 14 per cent. You are not in fact giving the maximum for each producer, but you are making your best effort to give the best average price as a whole to the average cultivator and an average cultivator has his production spread throughout the season. This way of looking at the market as a whole when you are talking the agricultural crops or the results of a whole season and not merely some particular points of comparison appears to me to be very important as corrective to the piecemeal approach.

I would thus suggest that there are a large number of problems of operations and efficiency of agencies for you to consider. Take the problem of market regulation. Now as you know there are states in India where there is almost no market regulation, e.g., Assam and Bihar. If you take the Punjab-Haryana complex, regulated marketing covers the entire area. They have taxed the regulated markets in order to give services, and the way storing and roads have improved during the last four, five years, has been really quite remarkable. The Market Committees have to tax the cultivators in order to provide amenities but there is a *quid pro quo* and the cultivators themselves appreciate what is happening. Why does this not spread to other states? These are problems in relation to which a lot of thinking should be done.

In considering the efficiency of these agencies what are the incentives for the operations? How can we transfer experiences from one part of the country to another? If we cannot transfer these experiences from Punjab to Maharashtra or from Maharashtra to Bihar, we are in a bad way. Organisations like yours, which have an all-India view can go into these matters. There are difficulties but really this should be the crux of the attempt. The economist can properly deal with all these. The economist is not necessarily bound by the short term policy decisions. I would like the market administrators and those economists who are specially concerned with efficient improvement of marketing to give these problems their special attention.

## DISTRICT DEVELOPMENT PLANNING\*

### I

I find myself today on this platform in an extremely unusual position. The founder of this Institute, my father-in-law, Rao Bahadur R. R. Kale of Satara, died in January 1936. We considered that an appropriate way of paying our tribute to him would be to initiate a series of annual memorial lectures. The first lecture in the series was delivered by Prof. V. G. Kale in January 1937 and since then, with the exception of an unfortunate interruption in 1947, the memorial lecture has been regularly delivered each year. We have been singularly fortunate in having secured the services of a series of eminent lecturers who have delivered discourses on important subjects year after year. The lectures are ordinarily delivered during the first quarter of the year. When some months ago, I as Director of the Institute asked Prof. V. M. Dandekar, who was then the Joint Director, who should be invited to deliver the lecture for 1966, he suggested that I should deliver the memorial lecture myself after retiring from the post of Director on 1st April. After a little thought, I accepted the suggestion. My reasons were mainly two. In the first instance the change in roles, from one who welcomed and introduced the lecturer every year to that of the lecturer himself would help to mark definitively and publicly the end of my administrative responsibilities as Director of the Institute. Secondly and more importantly it would enable me to pay my own personal tribute to the Founder.

Before doing this in the form of an academic discourse I may be allowed to say a few words regarding the founder personally. I do this because it is thirty years since he passed away and there would be few in this audience, as among the staff of the Institute, who have any personal knowledge about him. Rao Bahadur Raoji Ramchandra Kale was a distinguished and highly successful lawyer of Satara City. He was also keenly interested in public affairs and actively participated in them. He played a prominent part in the provincial legislature and in the University. He was a Sanskrit scholar, a deeply religious man, and was attracted towards the Prarthana Samaj. However, like

\* R. R. Kale Memorial Lecture, delivered on 23 April 1966, and published by Gokhale Institute of Politics and Economics, Poona, 1967.

Ranade whom he revered greatly, he was averse to breaking off connections with traditional society. In politics, he was a follower of Gokhale both in the insistence on a deep and careful study of problems and in the belief in need of moderation in the expression of opinion. Though living well, he was able to put together a modest fortune, three-quarters of which he gave away, in part during his lifetime and partly by donations and by creation of a charitable trust at death.

The manner in which he founded this Institute exhibits some of his salient characteristics. I was serving as Principal of the College of the Sarvajanic Education Society at Surat since 1925. I had the option of leaving the college in 1930 and a year earlier made up my mind to do so, because as Principal I had little opportunity to engage in research. In the prevailing circumstances I decided to seek an opening in Poona where I could combine teaching with research. When Rao Bahadur Kale learnt of this, he made, without my knowledge, an offer to the Servants of India Society of an endowment which could give me a chance to do what I desired. He did this at a time when he had retired from active legal practice and though it meant giving away immediately a significant part of his capital resources.

The Institute was established in June 1930 as a result of the negotiations which followed this initial offer made in June 1929. The President of the Servants of India Society made the suggestion initially that the Institute might be named after the founder. However, he felt that naming it after Gokhale, the founder of the Servants of India Society, would be more appropriate and that the Institute might more readily attract wider support in this case. Therefore, he quietly substituted the name of Gokhale in the final proposals and his own name was put into brackets as founder. The assistance and co-operation of many have been responsible for the growth of the Institute in subsequent decades. However, these could have had no chance to operate but for the imaginative, courageous and generous initial endowment by the Founder. As the greatest single beneficiary of that action I have great pleasure in paying this tribute, on this occasion, to his memory.

It is only proper that I should take this opportunity to express my gratitude to the President and members of the Servants of India Society for their co-operation and assistance through all these years. In accepting the endowment the Society agreed to house the Institute and to give it the use of its library. Though in later years the Institute was able to command its own resources for these purposes, the use of the premises and the nucleus of the library have been vital to the growth of the Institute. The terms of the endowment created a Board of Management for the Institute in which naturally the major role was that of the Servants of India Society. It is a pleasure to record that this responsibility has been discharged by the President and con-

nected members of that Society with such great consideration and understanding that the Institute has, in fact, functioned during its entire existence as an essentially autonomous academic Institute.

## II

The subject of my address today is District Development Planning. In terms of the division of the main functions of government there are in India three tiers, *viz.*, the Union, the State and the District. The constitution of the third tier is not uniform in all states. In some states the main unit of self-government is the District, in others it is the Block. In Maharashtra after adoption of the Zilla Parishad scheme the Zilla (District) authority has been definitely established as the local development planning authority. For a number of reasons this appears to me to be the most appropriate arrangement and for the purpose of this lecture, I shall confine attention to problems of planning where the District authority is in this position.

District development planning as I consider it is an integral part of national development planning. In a state in which there exists a constitutional division of functions between a tier of authorities the planning powers are likely to follow this division of functions. However, it is general experience that the actual operation of the division of functions may be greatly modified by the distribution among various levels and authorities of the total financial resources of the state and by arrangements connected with this distribution. Moreover, the effective exercise of planning powers is associated with the existence of appropriate organs and the availability of adequate knowledge and efficient agencies for the purpose, in case of each tier in the federal structure. An appreciation of the problems of planning at any levels, therefore, requires a detailed study of these and of actual operations.

In terms of the division of powers and functions between the Union and the States and the actual operation of the planning process a certain pattern of division of activities and responsibilities had developed in India by the end of the second five year plan. In a paper written in 1960 I described this pattern in the following words: "The fields of action of the centre and of the states are, to a large extent, distinct. The centre builds up and maintains the overall instrumentalities of national economic life such as the credit and the monetary system, the railways and ports. It also acts in relation to the basic requirements of the long-term plan of industrialization, with emphasis on large industry and exploitation of mineral resources. The states are concerned, on the other hand, with acting on the total life of all the people in their charge and on all the diffused, dispersed small-

scale units and activities. The centre is concerned with the most generalized features of the national frame and with highly concentrated action at a few strategic points; the states must affect all areas and localities, all the relevant fields and all units. The centre is concerned with the strategy of the long-term plan and with initiating the crucial movements; the states have to engage themselves in transmitting the forces impelling economic development to all areas and units, and with concretizing for the individual units the fruits of development. The generalized objectives of a state plan are, therefore, making possible, initiating and encouraging economic development in all activities and sectors, and areas and localities, and protecting the standard of living and improving and ameliorating the situation, social and economic, of all individuals within their territories. The objectives and the constituents of plans of individual sectors and departments must conform to the requirements of these general objectives. In the light of the above, the locality and the individual are placed at the centre of the activities of states, and providing for the universal impact of the developmental process and for a diffusion of its effects becomes their primary aim."<sup>1</sup>

When this was written the development of district authorities endowed with specific planning powers had yet to take place. However, the objectives and fields of state planning activity as described in the extract quoted above may be taken generally to apply to the existing situation in relation to district development planning.

Before proceeding to a detailed discussion of problems of district development planning in India, I would offer a few introductory remarks on some theoretical aspects of the general problem and on experience with the effort in some other countries. It is interesting to note that most of the theoretical work has been done in relation to what may be termed regional planning.

The newly developed regional science, deals with broad aspects of interrelations between the various forms of organized social activity within the context of physical space. Its development is associated chiefly with the theory of location of economic activity originating in classical economics and greatly elaborated in recent decades. Regional science has progressively attempted to present a spatial framework for social science disciplines, especially economics, through the development of a general theory of location and of space economy. It is thus concerned with human social activities distributed over a given territory. It starts with the assumption that such activities are distributed over any region "in certain rhythms and patterns that are neither

<sup>1</sup> Gadgil, D. R., *Planning and Economic Policy in India*, 3rd edition, 1965, pp. 237-8.



arbitrary, nor the workings of chance. They result rather from the interdependencies that give form to economic space. Spatial patterns will change with shifts in the structure of demand and of production, in the level of technology and in the social and political organization of the nation."<sup>2</sup>

With the development of the concept of stages of economic growth, regional science has begun to concern itself with the question as to whether there are spatial patterns corresponding to each stage of economic development, and whether there is an optimum strategy for spatial transformation from one stage to the next. In the context of an economy, which is neither directed nor regulated externally and appears to develop in a naturalistic manner, regional science directs attention to the analysis of various forces that appear to determine existing spatial distribution of activity; and in case of change, to the search for originating causes, the reactions and interactions, so as to help in assessing the manner in which any change is brought about and proceeds. All this is attempted in the same way as the analysis of a free market economy. Similar analysis utilizing historical data, may help in putting forward a theory of economic development in relation to regions. Planning takes the process a step further. In this case it is unnecessary to assume a naturalistic frame and conscious purposive human effort may be studied in relation to its possible impact on an environment. Regional planning, as such, may take the planning objectives and strategy at the national level for granted, and specially address itself to the specific spatial features emerging in the formulation and operation of a national plan in a particular region. Given any theory of economic development and of pattern of transformation of economy from one stage to another, certain expectations of the formation of agglomerations or of regional imbalances, may be formulated, as a result of such regional analysis. These expectations may be looked upon either as inevitable or logical stages, in the process of development which have to be accepted, or alternatively, as tendencies which could be curbed and regulated in case certain objectives of national plans are desired to be fulfilled. Regional planning, in this context, ceases to look upon the interplay of socio-economic forces within the space economy as working in a naturalistic manner and begins to consider them as capable of being directed and regulated with reference to assumed objectives. Regional analysis then helps the planners to understand operations of forces generated in a given situation or through particular policies, and enables them to visualize the possibilities and limitations of external action and of the framing of objectives of policies.

<sup>2</sup> Friedmann and Alonso, *Regional Development Planning*, 1964, p. 2.

While a considerable amount of abstract discussion of regional planning and planned development on lines described above exists today, detailed attention has so far been paid only to a few specific problems. This has been largely due to the fact that complex and elaborate analysis, such as is required in this context, has been attempted only in the highly developed countries. The two major sets of problems of space economy which these countries confront today are those connected with the growth of large metropolitan centres and those connected with the existence of patches of depressed economy within a fast growing and affluent society. Most of the detailed work has been done in relation to the planning of what are called metropolitan regions. The importance of this is so overwhelming that it is possible for writers to say that while infra-urban space is of primary importance in city planning, regional planning "focusses attention on supra-urban space."<sup>3</sup> This definition of regional planning as the ordering of human activity in supra-urban space has to be understood against the background of economies in which urban population vastly predominates and most activity is oriented towards city centres.

While concern with regional planning in the context of metropolitan growth has been in evidence for many decades, attention to the planning for development of backward regions or depressed areas has been relatively recent. The depression of the 30's first brought into prominence the problem of areas suffering in a specially acute manner from the effects of economic decay or stagnation. Measures to relieve such conditions were widely discussed and studies were undertaken at universities, for example in England, specially in relation to them. However, it is with the post-war vogue of planning that this problem has come to have special importance. In this context, the region is defined as territory which has relatively homogeneous economic characteristics and which appears to a significant extent, to have been uninfluenced by forces which have brought about, growth and diversification of the economy, in other parts of the country. Regional analysis is concerned here with a study of the factors making for stagnancy and of the possibilities and means of activization. We thus note that advancement of regional science and, in particular, use of techniques of regional analysis so as to render significant assistance in the work of practical planning, are in evidence, chiefly in the two areas indicated above and that the techniques are not immediately available in relation to the problems that we face in district economic planning.

It may be noted that though district economic planning is concerned with aspects of spatial organization, the district is not a 'region' as the term is usually understood. It is important to emphasize this ini-

<sup>3</sup> Friedmann and Alonso, *op. cit.*, p. 63.

tial point. The district is essentially a local administrative division and the area divisions of governmental authority or administration do not necessarily or even usually coincide with regions defined as contiguous territory sharing common economic characteristics. Economic homogeneity to the extent that it is present in a district, would be a matter, in part, of accident, and in part, of the fact that the district forms a part of a larger region which may be economically homogeneous. The objectives and reasons for the formation of districts are related to administrative convenience, historical traditions and other such factors. Obviously physical features and barriers also play some part in determining district boundaries. In India districts, for the most part are composed of component areas of a sufficient diversity of conditions and interests; and the methods of regional analysis and planning could be appropriately applied only to the relatively homogeneous economic sub-areas in them. It may often happen that a belt of territory in a number of contiguous districts constitutes a homogeneous region while none of the districts are themselves homogeneous. In such a case the development plans of all the districts will have to adopt the appropriate approach for regional development in relation to the particular part of a homogeneous region contained within them. Further, in some districts the predominance of large urban or metropolitan centres may affect plans of development. In this case, the lessons of metropolitan regional planning will have to be applied. Thus district development planning presents problems which are comparable with those of planning for the development of a large state with a heterogeneous composition. The problems of planning at the state level are all met in a somewhat simpler form within district development planning; somewhat simpler, because the degree of heterogeneity and complexity in a district would be necessarily less than that in a state.

The above characteristic of district development planning follows from the identification of planning areas with administrative and local self-government areas. Where regional planning is undertaken for a specific homogeneous region, with special characteristics and to attain a particular objective, it is possible to define a region independently and to set up a planning or development authority for it. This could happen with a river valley region, or a metropolitan region or territory defined as backward or depressed and in relation to which special measures are undertaken. In India, we are engaged in planning for the development of the entire country and though the situation and requirements in different areas differ radically from each other, the effort undertaken in each area is a part of the total national planning effort. Moreover, the development planning undertaken in each area has to be equally comprehensive. The total national plan of

development, of all activities and classes and all regions, is a multi-objective plan with universal coverage. It follows that the development plan of any area or district, however small, has to be equally comprehensive, in the definition of its objectives and the scope of its action. The development attempted must affect all areas, within the district and must touch all activities and all classes. This characteristics sharply distinguishes our district development planning from the regional planning undertaken, for regions, formulated in relation to limited objectives, in an *ad hoc* manner.

Inevitably, the areas of local planning in India, have to be so constituted that, taken together, they cover the entire area of the country. As local planning has to be undertaken for all areas, it is obvious that the effort should be associated with the administrative and the self-government areas into which the country is already divided. This special aspect of district development planning also makes it desirable and necessary, that the planning authority be identified with the local administration or the local self-governing authority. In specific *ad hoc* regional planning, where the region is specially constituted for a specific purpose, the planning or the development authority may also be specially created or constituted for the limited objective. It is likely in such a case that neither the area nor the functions to be carried out coincide with the area or the functions of any existing authority or administration.

### III

Indian planning is highly centralized. Planning in the sense of attempting formulation of an integrated plan of development is undertaken only by the Planning Commission at the centre. Planning thought and information, to the extent these are in evidence, exist only with the Planning Commission, and this body alone is concerned with planning techniques. The central plan is influenced to some extent by a perspective plan and there is some discussion at the Planning Commission of desirable strategy, especially in relation to decisions regarding allocations and priorities. However, even the central plan is not built up in an integrated fashion. It results essentially from putting together recommendations of a series of working groups or committees concerned with specific subjects or departments. There is little effort at integrating, coordinating or dovetailing the separate schemes or programmes either at the time of their preparation or later. They are all more or less mechanically combined to form the plan and when, as a result of decisions regarding allocation, adjustments have to be made upwards or downwards they are made independently for each separate set of programmes.

The situation at lower levels is much worse. At the state level planning is highly officialized. Non-official leaders or experts are consulted to some extent by the Planning Commission which has set up a large number of panels, committees, etc. No mechanism through which this may be done exists in the states, at least in most of them. The Maharashtra Government set up in 1960 a consultative plan committee. This met twice in the first year and, among other work, set up two sub-committees which produced important reports. No meeting of the Consultative Committee was called after 1961. Planning at the state level is not only highly officialized but is essentially a secretariat affair.

In all the major states, there is practically no machinery for planning as such at the state level. The state plans are not made as the result of any wide consultation or effort at co-ordination. There is no specific definition of the objectives of state planning and no thinking out of a strategy appropriate to it. This follows from the fact that the state plans are prepared, basically, in the same manner as the annual state budget. The departmental proposals in relation to each section, and sub-section are formulated in the departments, are put together by the heads of departments and forwarded to the secretariat. The plan is then prepared in the sense of being pieced together in the secretariat. Except for the debate in the legislature, there are no public discussions or consultations of general or specific plan objectives or proposals and no information is available outside as to what is contemplated or proposed. In the secretariat itself there is neither any attempt to obtain special knowledge or information nor any personnel specialized in planning techniques.

Moreover, state plans, which are prepared entirely at the departmental and secretariat level represent, in essence, the reactions of the state government and its officers to the known wishes and proposals of the Planning Commission. The standard Planning Commission schemes or similar departmental schemes, prepared in the states which have obtained the approval of the Planning Commission, are the basic materials from out of which the state and district plans are constituted.

The Second Five Year Plan contains an entire chapter — Chapter Seven — on District Development Administration. This chapter is concerned chiefly with what might be attempted in the future in relation to District Development Administration. Considerable emphasis is placed on the lines on which District Development Councils should be built in the future and on the preparation of village plans. A great deal is written about the establishment of village panchayats and their functions such as of land management and the framing of programmes of production. The district development machinery con-

templated, is that of an *ad hoc* District Development Council and of the development committees constituted for blocks and talukas. At this stage, what are now called the Panchayati Raj institutions, had not been universally established at the village level; and though there were in most states local self-governing bodies, such as taluka or district boards, there was no thought of entrusting these bodies with any aspect of the development planning work. The share of the administrative officers of the district was highlighted in this Plan document, and the responsibility of the collectors, the sub-divisional officers and the block development officers as leaders was emphasized. In fact the district administration was described as "an agency of change towards a new social order."<sup>4</sup>

In the Third Five Year Plan, there is no separate chapter on district development administration. The matter is dealt with, in part, in the chapter on Community Development. This deals with the possible effects of the recent establishment of the Panchayati Raj institutions and raises the wider question of the re-organization of the district administration consequent upon the introduction of Panchayati Raj. The emphasis on village production plans is still continued and there appears little appreciation of the existence of grave deficiencies in the machinery for the formulation or implementation of plans at the state and the local level. In fact, as the following quotation will show, the planners were obviously well satisfied with things as they were. "Large burdens are being placed on planning organizations in the states. States are called upon to interpret national objectives, translate them in terms of the needs, resources and possibilities open to them, carry the plan to the remotest points and find ways of mobilising local resources and enthusiasm. Within the limits of its tasks as conceived thus far, the machinery for planning in the states has served well."<sup>5</sup>

The activities of the district development councils set up from the period of the Second Five Year Plan were entirely of an advisory nature. These councils were composed mostly of local political leaders who had little special knowledge or expertise in any direction. There was also no agency or arrangement for the procurement of local data or for identification and study of local problems. The councils put together a series of more or less popular demands regarding the construction of irrigation works, roads or the setting up of educational institutions, hospitals, etc. These had no relation to a strategy of long-term planning or to any definition of priorities. The councils put together a list of recommendations which was usually fairly comprehensive and large. The preparation of plans by the heads of state

<sup>4</sup> *Second Five Year Plan*, Govt. of India, Planning Commission, 1956, p. 164.

<sup>5</sup> *Third Five Year Plan*, Govt. of India, Planning Commission, 1961, p. 289.

departments or by secretariat officials was not likely to be influenced in any significant manner by the recommendations of these councils as no significant ideas, specific constraints or compulsive recommendations emerged from them.

The situation continues to be similar, at least in Maharashtra, even after the establishment of Zilla Parishads. The preparation of the 4th five year plan by Zilla Parishads was undertaken in most districts on lines which did not differ materially from the operations of the earlier district development councils. There was no greater volume of information specially collected or made available to the Zilla Parishad, or its sub-committees engaged in planning. Secondly, though the work of planning by the Z.Ps. was more elaborate, in the sense that more attention was paid to preparation of plans at the block level and to the co-ordination of plan proposals by subjects, its essential character remained unchanged. This was because the district plan was not looked upon as a realistic document which was part of a long-term development plan framed by the Zilla Parishad and to be implemented by it. It was, as before, a set of proposals sent up to the state government or more correctly to the secretaries from which the secretariat would put together the plan which the Z.P. would in due course have to implement. This was emphasized by the fact that no realistic financial limit as to the size of the plan to be prepared by Zilla Parishads was indicated to them. In fact, they were encouraged to prepare plans of a size very much larger than the most optimistic estimate that could be made, of allocation of resources to the district. Moreover, working groups in the secretariat were preparing departmental plans while the Z.Ps. were engaged in their work and with the continuous pressure for early completion from the Planning Commission it was the secretariat work that really counted.

The working groups whether in a state secretariat or in the Planning Commission, it should further be noted, operated *ad hoc*, without any clear guide lines and without the help of specially collected data which were critically analysed. As a natural consequence, experience counted for little, no attention was paid even to obvious past failures, and schemes and programmes were carried over from plan to plan with little change or modification. In such a situation it was futile to expect any attention being paid to variations in a local situation or provision being made for a study of them.

Planning in India at the lower levels continues to be, in the main, a matter of putting together standard schemes for each department or each activity, schemes known to be acceptable to the Planning Commission, in such a manner as to attract the largest amount of assistance that the state or the department can obtain from the Centre. It is only fair to add that since 1962, the Planning Commission has be-

gun to pay more attention to problems of district development planning, and a good deal of what I say in this lecture is based upon experience gathered in the course of an effort in this direction, which was sponsored by the Government of Maharashtra, and which received valuable assistance from the Planning Commission.

The almost entire absence of proper planning at the state and district level has imposed a grave handicap on development of Indian rural economy and is reflected in the relatively slow and patchy progress in agriculture, rural industry and related fields. Problems of planning in agriculture have been discussed by a number of official committees and there has been general emphasis on the need for relating targets and programmes to local circumstances.<sup>6</sup> This, however, cannot be done *ad hoc* or piecemeal and can only follow appropriate organization of state and district development planning. The situation today is thus that where improvement is attainable through programmes involving simple uniform action over a wide area success is achieved; where, however, close study of particular complex problems is necessary for progress, the problems are either unidentified or are dealt with inadequately.<sup>7</sup>

The reasons for this are two-fold. In the first instance, the administrative machinery is geared to uniform operations over a wide area and not to specialized local work. Secondly, no arrangements are available through which complex, particular problems could be studied closely on the spot. The targets approach of our type of centralized planning accentuates these basic tendencies.

The propositions, made earlier, may be supported by reference to an analysis of the relative successes and failures of the latest intensive district programmes in agriculture. Where, as in the districts of the Punjab, the conditions of agricultural operations were fairly uni-

<sup>6</sup> See Gadgil, D. R., "Planning for Agricultural Development", *Planning and Economic Policy in India*, 3rd Ed., 1965.

<sup>7</sup> Preliminary surveys in Wardha district brought to surface a number of local peculiarities that had been previously ignored in all development work. Illustrations may be given from one sector, that of land and water resources development. For example, the problem of a type of waterlogged land common in the district had not been noticed; the potential of utilizing water in streams for winter crops had been ignored; contour bunding in black cotton soils raised a number of problems which had not been tackled. Moreover, a detailed survey of wells in Wardha district revealed that a very large proportion of these were in disuse and that the reasons for disuse varied from area to area. (Wardha : District Development Paper I : Irrigation, 1963). These facts were unknown and had not been taken into account in previous plans. As a general rule, even the loaning operation of land development banks for new wells in any district are not today accompanied by a survey of successes and failures in well-digging or of disused wells in any area and do not utilize any information relating to the subject that might be available.



form and the overheads and the organizational structure were already available, the progress was striking; where similar conditions did not obtain the progress has been unimpressive. In a like manner, major schemes of irrigation and power are completed fairly successfully but schemes of minor irrigation, especially those where nature is unfavourable locally, make little progress. Apart from the structure of administrative arrangements and the discouragement of local initiative, the attitude of government towards programme of agricultural improvement is also responsible for the phenomenon. Campaigns are still the most important features of these programmes. Inevitably programmes in a countrywide or statewide campaign can only consist of generalized prescriptions which ignore local variations. There is no problem-orientation and no inclination toward evolving a long-term programme based on close study of particular problems. Constant campaigning inhibits the attitudes and dissipates the energy needed for study and long-term action. It also leads to ignoring the total complex of conditions related to improvement of agriculture. A single item, e.g., fertilizer use, is pushed with no consideration of related technical or financial factors. In an old country with a relatively intelligent peasantry it may be assumed that the scope for obvious improvements capable of being brought about easily in existing circumstances is small. Therefore, campaigns or crash programmes inevitably give diminishing returns and the next stage requires a changed outlook and altered administrative arrangements.

The approach through compilation of a plan by reference to separate standardized departmental schemes has many other disadvantages also. For example, it leads to unnecessary proliferation of staff and to its non-integration on the field. This is because the staff proposals are attached to each scheme and are considered separately as for the scheme and its duration. It also results in there being no co-ordination or synchronization of action among various departments or different agencies in the same department. This is responsible for the familiar phenomenon of a number of targets, especially relating to expenditure, being achieved and yet there being an overall failure of the total programme.

There is little difference of opinion in the country relating to the desirability of changing the present system of centralized, departmental planning. However, relatively little thought has so far been given to the positive content and the administrative and organizational implications of local planning or planning from the bottom. The lowest stratum of governmental authorities in India is, in most states, the District. Planning from the bottom has, therefore, to be associated chiefly with the district development planning effort. It is this which vests the subject with great importance and makes it worth

while to consider in some detail the requirements of district development planning and the directions, the quality and stages of effort implied by it.

#### IV

Beginning may be made by drawing attention to two primary requirements. The first is the basing of the district plan on knowledge regarding local conditions, and the second is the association of local people with the formulation and implementation of the plan. In a sense, both these aspects are implied in development planning at whatever stage it is undertaken. However, whereas in India, there is some appreciation of the need of obtaining technical and economic knowledge and data and consulting people, before formulating planning at the national level, there is in practical terms a complete absence of this, at the local level. The gap in the matter of knowledge and information, is the most glaring at the district level. There are certain series of administrative statistics available and, depending on the system of land tenure and the method of maintenance of village records, some data are available regarding the distribution of holdings and cropping patterns. Also some technical information may be available where, previously, surveys as that relating to minerals have been conducted. For the rest, technical information is inadequate and relevant economic information is almost totally absent. For example, centres of Agricultural Research are few in a state and many districts have no such centres with the result that its special problems of agricultural production technique cannot be dealt with, except on the basis of information relating to some distant area which may or may not be relevant, locally.

Planning in its technical and economic aspect, is closely related to relevant knowledge and information. Unless there is a minimum base of such knowledge and information, a plan of development for an area like the district cannot be built up. Moreover, the minimal base will suffice only for the preliminary effort at planning; as planning extends its coverage and intensifies in depth, the amount and quality of information will have to be progressively increased. An appreciation of the great importance for local planning of agencies investigating into local condition and collecting information on all aspects of socio-economic life and technical production and other activity, is urgently required for making a proper beginning with district development planning; and provision for continuing extension of investigational and research activity in all the fields at the local level is a necessary concomitant of the continuance and growth of district development planning effort. As long as detailed local knowledge is not avail-

able, to test and question the applicability of standard schemes and to provide the base on which to build alternative proposals, there is no chance of replacing the present approach to planning.

The second aspect, that of local co-operation and participation in formulation and implementation is equally important. This is so for two reasons. In the first instance, any agencies which are employed for the conduct of research and investigation in varying aspects of the local situation will have to work in close co-operation with different strata in the local population. The success of investigational research effort is closely bound up with an understanding by the relevant elements in the local population of the nature of investigation and research undertaken and the objectives to which it was related. Moreover, apart from the limited extent to which technical considerations dictated a certain pattern of the plan and the order of priorities in them, the pattern and the priorities will have to be determined in relation to local choices and opinions. It is true that in a number of directions the margin of such choice would not be wide. The objectives determined, the allocation of funds, the choice of agencies, etc. made at superior levels would impose certain constraints on district planning. Other constraints would be where technical or economic considerations definitely pointed in certain directions. Even though the margin of choice for local decisions might thus, in particular contexts, be small, it is important that within this margin the choice should be made locally and moreover, that a full understanding of the why and wherefore of the constraints as described above and their relevance to local choice are understood by the people concerned.

Another important reason for arousing the interest of local population is that it is only through this that motivation for appropriate formulation and early implementation is created. It is the experience of, for example, regional planning in France that where unofficial bodies had already worked out plans of regional development of their own, progress had been rapid. The case for local interest and participation at the stage of implementation is obviously overwhelming. Whereas the formulation of a plan may be related to technical knowledge and broader objectives, its implementation on the ground once formulated would be impossible without full local understanding and co-operation. This necessary condition further reinforces the need for local participation at the formulation stage. There is no doubt that more intelligence and co-operation in the stage of implementation would be forthcoming, if in the process of formulation itself the local elements were fully associated with the effort so that there was widespread appreciation of what was being planned and what the planning was expected to achieve.

Before going on to discuss the implications of the two basic requirements indicated above, consideration has to be given to another preliminary problem. This is that of the lowest area unit of planning. It has been pointed out above that ordinarily a district is unlikely to be economically homogeneous and that district development planning must face problems of planning for a mixed or heterogeneous area. It follows that the basic preliminary work of at least some aspects of the district plan must be carried out in terms of smaller, homogeneous area units. While this unit should be small and compact, it should also be large enough to serve as a unit of integrated planning. This means that it must embrace within it the variety of economic activity typical of the particular rural economy and that it must be capable of being treated as an integrated economic unit for purposes of planning. The most common factor of integration at this level of rural economy would be sale and supply activity; and in most parts of India where there is some commercialization of agriculture, such a unit may be identified as the primary market area. There are many obvious difficulties of definition and demarcation involved in the concept of a market area. It is here put forward, however, not as a theoretical concept but as a practical operative planning device.

While in terms of the existing situation the area unit may be identified as the market area, in terms of development planning it may be looked upon as the lowest area-unit for the integrated provision of socio-economic overheads and services. It is obvious that this approach to the definition of the lowest area-unit does not lead to an immediate ready cut and dried identification. In conceptual terms the market area has a centre or nucleus and by reason of specially convenient means of communication or other reasons it serves a fairly well-defined surrounding area as the primary marketing, sale and supply centre. In planning for the future it would be convenient to start with such existing centres and provide, for the surrounding areas, the overheads which must precede development as radiating from the centres. One of the most difficult problems in planning for widespread development is that of providing minimum socio-economic overheads everywhere. The efficient and economic planning of this provision is an important task in the initial stages. For this purpose, it becomes necessary to identify convenient integrated area-units.<sup>8</sup>

<sup>8</sup> In an actual exercise conducted in the Wardha District it was found that such an area-unit, called in this case for convenience 'the mandi-area unit' usually covered a population of 15 to 20 thousand. The population and area coverage will differ from region to region depending on the intensity of primary production and the density of population. Also, as was the experience in Wardha, while in some cases the centres and the areas served by them are fairly easily and clearly identifiable, in other cases, a selection among centres may have to be

This approach clearly rejects the village as the lowest area-unit of planning because it looks upon planning as involving coordinated formulation and execution of a number of socio-economic measures and activities for unfolding a given pattern of development. This concept of integrated planning assumes at each level and in each sector a strategy and a programme of economic activity in the state and public sectors combined with a regime of fiscal, monetary, physical, etc. measures of encouragement and inducement, of regulation and prohibition. The plan is integrated in the sense that the effect of the implementation of the plan is expected, according to the implied strategy, to lead to the initiation and cumulation of different types of public and private economic activity, which will bring about development along the prescribed route. The National Plan is supposed to integrate fully the plans of all tiers and authorities in all sectors. At each lower level, *i.e.* the State and the District, the plan is formulated within the total frame, with given objectives and external data or constraints, derived from the higher level plans. The District is considered here as the lowest area-unit of governmental planning. However, as it is ordinarily too large and heterogeneous it would be difficult to formulate an integrated plan directly for the entire area of the district. Therefore, while some elements of activity and some integrating factors would operate only at the district level, for the bulk of activities in relation to primary production, dispersed industry, rural trading and transport or urban activity oriented towards serving the rural economy etc., the district has to be divided into convenient areas for formulation of an integrated plan for the lowest level area unit. And the concept of the mandi area is offered here as the most appropriate for this purpose.

## V

It is now necessary to give attention to problems of formulation of a district plan and to its important component elements, the integrating factors and the constraints and limits within which it has to be put together. Given the assumption that the district plan is not put together as a summation of lists of departmental schemes, and that there is a minimal base of information and knowledge regarding local conditions, we have to begin with an analysis of the main features of an integrated district plan and the procedures or stages by which it could be put together. Subsequently, as long as administration is organized in terms of activities of certain departments, any proposal or plan will made and careful demarcation of areas undertaken. This has then to be done on the basis not only of the existing situation but also of projected future development.

have to be translated into terms of departmental schemes for implementation. However, it is one thing to prepare an integrated plan in the first instance, and then transform it into a series of properly coordinated departmental schemes and quite another to start with the preparation of schemes for individual activity and sub-activity of each department and then to put them together as a plan. For the purpose of the formulation of an integrated plan of a district, the stages or aspects that appear appropriate on the basis of some experience are as follows.

The first stage, and an essential one, appears to be that of the preparation of the physico-geographic plan of socio-economic overheads. The preparation of the physico-geographic frame is specially important at the district level. The main business of a district plan is to influence and direct the activities of thousands of small producers. Action in this regard has two aspects. Firstly, the provision of those basic services and amenities without which growth and diversification of economic activity will not come about. Secondly, the provision of such incentives as well as disincentives as will lead to development of economic activity in the desired directions. The first requires, very largely, public action in relation to planned provision of utilities and social services. This, in the context of our country, has to be planned in terms of a physico-geographic frame. It includes the provision of communications which inevitably takes precedence in the initial stages. Most backward regions are characterized by lack of means of communication. In the ultimate analysis, no area or territory can hope to profit from the economic development of other parts of the country which is not closely integrated with the economic life of the rest. The establishment of a system of communications reaching out to all areas and all locations is thus the first requirement for a plan of development. Other connected essential requirements are those of water and power and the development of economic organizations such as those of marketing and credit, storage and processing, on the basis of which, economic activity in each region grows to full capacity and becomes diversified. Social services such as those relating to education and health are also a vital part of the provision of the socio-economic overheads.

In view of the need to economize and obtain the best results from a given investment, it is necessary to plan carefully, the provision of all these socio-economic overheads. Two requirements of this provision are obvious. In the first instance, the spread must be such as to benefit all areas within the district and secondly, that the provision of the costlier utilities and services must be arranged from a hierarchy of convenient centres. A third condition may be added to the two. This is that it is highly desirable to follow, in the determination of these

centres and the areas served by them, to a large extent, existing patterns of marketing and other economic areas. A physico-geographic plan is thus a plan of communications and of the development of a series of centres at and from which certain services and amenities are provided. All of this is obviously closely connected with the concept of the "mandi-area" unit discussed above.

Attention may also be drawn at this stage to the possibility of looking at location of these centres of services and utilities from two different points of view. In the first instance, the centre would essentially be the main centre of marketing and exchange in terms of a small or large area. Exchange activities and the provision of the services which have to be most widely spread would be the normal function of such centres. In terms of planning development it would be necessary to add to these functions, those of furnishing technical assistance or the more modern institutionalized economic services such as of credit, storage and processing and of social services such as those relating to education and health. However, from the point of view of a development plan, especially, in relation to the growth of non-farm activity, a centre may be thought of as a centre of growth of industrial or other activity which helps to transform the economy of a surrounding region. It is obvious that the concept and the location of a centre of this type would be different from that of the traditional centre. A district plan must provide for the development of well distributed centres of the traditional type for the entire district. The industrial development plan of the district may select some of these centres for intensive development of some types of non-farm activity or find it necessary, for whatever reason, to develop other centres for particular purposes. However, as the two types of centres will have different functions, the utilities and services located in them and the demarcation of their areas will follow different principles. Whereas the former will adopt a generalized common approach, the latter will be related to certain specific aims.

The second aspect of an integrated district plan appears to be that concerned with the conservation and development of natural resources. Initially, in a country in which rural economy is so predominant and agriculture employs such a large proportion of the working force, the district plan has to be based on natural resources and concerned with their conservation, exploitation and development. The conservation and broadening of the base of natural resources is thus an essential preliminary step in development planning. Special attention requires to be given to it as large parts of these resources have greatly suffered from neglect in recent decades. Conservation and development of resources of soil, water and vegetation are extremely important for our agricultural economy. As in the case of agriculture, problems

relating to conservation of natural resources arise all over the country but are at the same time highly local; local in the sense firstly, that there is a great variation in the characteristic of resources and the problems of conservation and development presented by them from area to area and secondly, that full conservation and development of all resources, necessarily requires the most detailed local action. A preliminary division of the district into homogeneous economic areas will have to be made for this plan of conservation and development of natural resources and the mandi-area unit may be found convenient for this purpose also.

It is as against the background of the physico-geographic frame of the distribution and placement of socio-economic overheads and services and of the plan for the conservation and development of natural resources that the next aspect of the plan of development comes up for consideration. This aspect deals with production activity. The plan of development of production, agricultural and non-agricultural, is at the centre of the planning process. This aspect of the plan differs in one material aspect from the earlier two. Action in relation to the provision of socio-economic overheads is largely action taken by governmental authority or by co-operating groups of persons. The conservation and development of natural resources is also to a large extent either governmental or joint activity of a series of establishments or persons. It is only in an exceptional case like that of construction of wells that an individual on his own might take action in regard to the development of natural resources. In relation to the production plan, however, the operations are essentially those of individual agriculturists, artisans, etc. Planning action in this connection is, to a large extent, a matter of providing assistance and incentives to individual producers. Because of this it becomes important in this context to think out carefully, what may be called the objectives and strategy of development.

What is meant by defining objectives is to spell out the particular immediate goals in each field in relation to the previous development and future requirements of the district. For example, at a given level of progress of co-operative activity it may be much more important to look to the functioning of the co-operatives in relation to particular categories, such as tenants or artisans rather than to pursue the target of universal membership. The concept of strategy may be illustrated by reference to rural industrialization. For example, one may decide to concentrate initial effort on the development of processing in the co-operative sector and on the rehabilitation of traditional artisan industry, because these may not only be immediately important but also because they afforded convenient bases for future progress. Or in another context, a programme of providing improved latrines in



schools may be adopted for long-term improvement of rural health habits. Choosing a particular set from among alternative groups of incentives and disincentives may also be determined by estimates of response and the chain reactions that might be set up; this in a sense is strategy.

Such problems of analysis and estimation will be encountered in each programme in this field. The agricultural production programmes today, give very uneven results, because they do not analyse and take into account the local situation. A threefold classification in relation to programmes of agricultural improvement appears basic. (1) Improvements which are locally accepted but not yet widespread. (2) Improvements proved to be useful locally but not yet accepted and (3) improvements which have to be tried out and established in the local environment. In relation only to (1) is a programme of propaganda and appropriate incentives indicated; in relation to (2) emphasis must be placed initially on demonstration; and regarding (3), which is a large class, because of the limited extent of local adaptation effort so far, it is systematic work in local adaptation and adjustment that must precede everything else. Programmes for the development of agricultural and non-agricultural productive activity have to be framed not only to suit local circumstances and conditions but also to suit the requirements of the different classes of producers. The universal present complaint regarding benefits of programmes accruing to the more substantial cultivators flows from lack of differentiation in this regard. Existing programmes have to be specially adapted to or special programmes framed for the small holders and part-time farmers if these are to profit from the planning effort.

While the emphasis on agricultural production is important, activation of the rural economy requires much greater expansion of the subsidiary primary production and of industrial activity. Intensification of agricultural production activity will meet the employment and development needs of only the middling and substantial cultivators, forming everywhere less than half of the rural families. For the small, effectively part time cultivators, the landless labourers, rural artisans and others supplementary and new activities must be found. In part, these would arise from planned programmes of the provision of socio-economic overheads and of the conservation and development of natural resources. In part, they must be found in expansion of the field of non-agricultural primary production e.g. animal husbandry, fishery, etc. The importance of this has been recently recognized, but no appropriate developments are yet being planned. In this matter, as in plans of industrialization the technical view dominates the field without reference to the needs of the economic situation. There appears very little awareness that the situation demands the develop-

ment, for example, of dairy and poultry activities in units and at levels which will be within the competence of at least the average small farmer, if not the landless labourer; and, if necessary, the individual small units must be supported by the requisite net-work of services and supplies. Finally, the rural economy will begin to move only if industrialization of the countryside is no longer regarded as only a supplementary or side issue but as the main result aimed at by the programme of industrial development.

This naturally leads to a consideration of the immediate problems of non-producers. The provision of socio-economic overheads, the conservation and development of natural resources and steps to improve and encourage productive activity all benefit those who have a minimum viable base of productive resources. All those who command very inadequate or no productive resources cannot hope to benefit directly from any of these programmes of development planning; and as there is little likelihood of the vast majority belonging to this class obtaining productive resources through measures, say, of redistribution of land, the programme required by them and for them is essentially that of provision of adequate employment. At the same time, the programme of providing employment for non-producers cannot be an additional programme not included in the three aspects of development planning indicated above. The concept of the additional rural works of the Planning Commission is illogical and merely shows up the failure to plan adequately. The contents of a rural works programme cannot be of a type different from those included in the programme of providing socio-economic overheads or of conservation and development of resources or the maintenance of these or of existing works. It is obvious that a rural works programme which is conceived of as additive will not be properly integrated with planned programmes and will to that extent be wasteful of resources.

The need to provide for adequate local employment through all aspects of development programming thus imposes an additional requirement on the process of plan formulation. This will operate mainly in two directions. Firstly in relation to the choice and volume of works included in the plan and secondly as regards their spatial and temporal distribution. The entire programme of additional economic activity directly undertaken by public authorities together with any expected increase in employment offered by private operators must generate the total employment required. The size and the degree of labour intensity of planned public activity must be related to this objective; also, as the aggregate employment has to be properly distributed over space and time the distribution, over the area of the district, of planned activity and its initiation and closure in time have to be regulated in relation to specific local requirements. Moreover, the

generation of additional employment has to be looked at as not being related to a particular year, but as a continuing long-term requirement. The employment requirement should thus not only affect the size and shape of the annual plan but also deeply influence the perspective and strategy of all planning. The employment aspect of planning thus colours and orients the whole process. It has also an integrating effect, because it gives a direction and a measure to large numbers of planning decisions.

In the dovetailing of the plans, there arises also the problem of priorities. Broadly, these have to be determined by scales of valuation and by accepted ideas regarding the route which planned development is likely to take. Conservation might be objectively given high priority, because logically conservation of resources has to precede development. Also if high value is placed on simultaneous development of all areas, a communication and services programme must be given high priority. The problem becomes more complicated in connection with what are called social welfare activities. One may consider a minimum provision of educational and health service for each citizen as an input required for a minimum performance by labour units. From such a point of view a considerable amount of educational and health expenditure would be treated not as welfare expenditure but as investment expenditure. It is obvious that in this field a great deal depends on subjective valuations and judgement. However, limit has to be placed on independent judgement in each local area in such matters. There has to be an accepted framework of overall national objectives and a certain broad valuation must inform all district plans.

The other important integrating factor and constraint is that of financial resources available for the district plan. This is an overall constraint which limits the extent of effort that can be put forward within a period. In a sense it is this constraint that makes planning meaningful. It provides the frame within which given local, natural and human, resources and the local interpretation of national objectives the optimum effort that can be made for the best utilization of the available financial resources has to be defined and determined. The strategy of the plan as a whole or for the public sector and the determination of priorities and allocations are made fully with reference to this constraint. In its absence, the district development planning is no more than a compilation of desired schemes and projects which are not necessarily connected together and in which no indication of logical relation or chronological order need be given. With the constraint imposed by the overall financial limit, the interpretation of a district plan means essentially the spelling out of the logical relations between various sectoral and departmental plans and the

chronological order in which within all of them together particular schemes will be initiated and completed.

Reference has to be made in addition to a number of calculations of availabilities and balances. A road programme of given size would require certain equipment and trained personnel; the seed multiplication programmes have to be based on a given complement of farms and farmers. In education and health programmes, buildings, equipment, teachers, nurses have to be made available in a given measure for any level of desired performance. In the same way the total buildings and construction programmes in all sectors together would be subject to the overall limitation of availability of building materials, e.g., the total output of bricks or the possible allotment of cement. The entire plan, in particular, the socio-economic overheads and the conservation plans, requires labour as an essential input on a large scale. Therefore, the availability of labour would place a limitation on the size of these plans that could be accomplished within any given time. Such calculations in physical terms could serve two purposes; they would indicate limits to possible performance but they could also be taken to present a challenge, so that through, chiefly, better organization the limits could be stretched.

Better organization is the additional input that could be most readily made available in early stages of planned development. Also most new programmes of development require for their success that attention is paid to problems of setting up and operating appropriate organizations. In district development planning two types of organizations, *viz.*, the Panchayati Raj institutions and the cooperatives, would be chiefly utilized. This general approach still leaves unsolved a number of problems. For example, it is general experience that mere provision of a works programme does not, without a special organizational effort, benefit the categories for whom it is intended. The organization suggested for this purpose usually takes the form of a labour contract cooperative society. However, the organizational pattern and the functioning of this type in a variety of contexts have yet to be experimentally determined. This is also the situation regarding the major problem of the organization of small holders for agricultural production, for which cooperative farming appears to be the logical solution.

A large variety of other organizational problems are encountered in local planning. Some of these arise out of some aspects of land reforms as for example, the management of forests formerly owned by landlords; some because of a mixture of public and private interest, such as that of the management of a public utility such as a tank which benefits only a limited numbers within the community. There are some fields in which new experimental effort requires mainly organi-

zational improvisation. This happens with problems relating to what are called the weaker sections or with problems of conservation or development of non-arable land in which a number of departments such as forest, revenue, animal husbandry may be interested and where without arousing local interest and cooperation no effective programme could be carried out. Inevitably, problems of organization loom specially large where a departure from the traditional pattern becomes necessary or where the disadvantaged are sought to be benefited. It is thus clear that in the formulation of plans and more particularly in the plan of implementation, attention has to be paid to indicating carefully the organizations entrusted with operation and co-ordination and, in many fields also to designing and experimenting with new types of organizations for the purpose.

Two aspects of the integration of plans need to be specially stressed. These are co-ordination and synchronization. Any given objective such as that of increasing agricultural production would be related to a large number of schemes and projects and activities of different departments. It would be related to the conservation of land, development of water resources, construction of connecting communications, availability of power, supply of credit both long-term and short-term, institutionalization of marketing, guaranteeing of prices, setting up of co-operative processing units; this is apart from the specific agricultural departmental activities, such as those of supply of seeds, fertilizers, pesticides, introduction of improved practices and implements, the provision of technical assistance and advice, the operation of demonstration and research farms, etc. This small illustrative list would make clear what is meant by establishing logical relations within the activities of different departments and agencies which are intended in part or in whole to subserve one common objective. Given the size of the plan and the framing of objectives, the extent and nature of each activity and its chronological order would have to be determined in close relation to all the other activities which it supports or by which it is supported. If this aspect of mutual relation is not properly taken into account in the formulation of the plan, there would be obviously disproportionate expenditure of energy and financial resources in particular directions, which would be wasteful in so far as for want of necessary support and effort it would not bear fruit. By an integration of district plan is meant paying close attention to all these aspects of other relations and emphasizing the need to maintain a proper degree of proportionality. Coordination and synchronization become specially important for implementation to be effective. The mutually supporting action of different programmes and activities can bear fruit if the activities provided for are not only appropriate and in proportion, but also if in each context, they are in fact undertaken

and completed at the appropriate times. Synchronization of implementation of various aspects of programmes is of supreme importance especially in relation to such objectives as annual agricultural production plans.

It is obvious that to construct such a plan requires much more effort than a plan which merely puts together standard departmental schemes and that if adjustments are required to be made in such a plan, they necessitate much greater thought and labour than would be required in relation to a collection of departmental schemes which can be cut down or pared at will.

## VI

The preparation of a district development plan has a number of aspects. As indicated above the work has to be undertaken chiefly at two levels, the district and the mandi area. While the overall frames, the strategies and the comprehensive works and schemes have to be planned at the district level, the details of the conservation, production, etc. plans have to be worked for the mandi area. Financial allocations, areawise and sectoral, have to be finalized at the district level and distribution of schemes and programmes in the light of the employment criterion has also to be carried out here. Organizational problems will be most probably common to the entire district, though in some specialized aspects such as forest and wastelands or animal husbandry they may be found to have local peculiarities. The work of integration, coordination and synchronization will have to be undertaken appropriately at both levels, though the overall integrative effort will be in relation to the district plan.

The task at all levels is twofold. Firstly, there is the work of marshalling all available information, qualitative and quantitative, and judging of requirements, feasibilities, logical priorities and chronological orders from a technical point of view and, subsequently, given the final judgement regarding programmes and priorities, the work of formulation of an integrated plan taking into consideration all the limitations and constraints. Secondly, there is work of taking account of differing levels of local competence and knowledge, local attitudes and preferences and possible local reactions and responses. While the first will be mainly the work of official administrative agencies and official and non-official experts, the second can be achieved only through association of local leadership with the total enterprise. However, while making this formal distinction it has to be noted that the ease and the efficiency with which administrators and experts carry out the first will itself be influenced greatly by the extent of interest

they arouse in the local population in relation to it and the co-operation and assistance that they obtain.

Local participation in plan formulation and implementation is secured essentially through entrusting a considerable part of district development planning to local authority, *i.e.* the Zilla Parishad in Maharashtra, and in many other states. An initial difference in the operations regarding the two aspects and agencies may be noticed. While the work of the administrator and the expert can be made to cover the entire area of planning with more or less equal efficiency, the interest and commitment of local leaders and population may differ widely from field to field.

This is obviously a function of the education of local leadership and of its consciousness of the real meaning of national socio-economic objectives. From the point of view of possible variations in coverage and depth of local interests, it is necessary to recognize the importance of the national frame. Given national objectives and the total scope of the national plan of development, all aspects of it would necessarily be reflected in district planning, even though the local leadership may not be equally interested in all of them. Thus, for example, development of the more backward areas or special relief measures in relation to the weaker sections, may not evoke as much interest in local leadership as, say, the programme of agricultural production or irrigation development. The general compulsions of the national frame would then be useful in relation to continuance of minimum effort in those directions which do not evoke full local interest. However, in the ultimate analysis, it is necessary to ensure that national objectives are, in fact, fully accepted by local leadership everywhere. This is because no real social transformation can come about through development unless there is full understanding and co-operation from local elements in this regard. Therefore, while in the initial stages, the national frame may serve a useful purpose, the full and meaningful pursuit of national objectives requires an educational effort in relation to local leadership which must be considered as extremely important and essential. In part, therefore, the process of district development planning must be understood as that of communicating, to local leadership and population, aspirations and ideologies with which the national plan is informed. On the other hand, the realism and the effectiveness of the national plan depend essentially on an understanding at the national level of the possibilities and difficulties of local planning.

Most of the discussion has been conducted, so far, in terms of plan formulation. Problems of implementation have been dealt with impliedly. This has happened in two ways. In the first instance, the agencies of plan formulation and plan implementation are in this

context, identical. The various authorities and committees and non-official associates of the Zilla Parishad and its administrative set up will be equally involved in both formulation and implementation of plan. It is only the outside experts, official and non-official, consulted in plan formulation who may not be involved in implementation. Secondly, the procedures indicated for formulation of details of the plan and for putting it together in an integrated fashion have relevance also to implementation. If the operating organizational agencies in each context are carefully thought out and indicated and proper attention paid to co-ordination and synchronization in formulating the plan and its various component schemes and programmes, analysis for implementation will become easy. Effective implementation requires a clear appreciation by each operator of responsibility in relation to every relevant item and the relationship of that item to others. Clear indication of these responsibilities and inter-relationships should be available from the detailed work of plan formulation. Extracting this information and putting it in appropriate form for communication to the relevant agencies and personnel is the first step in implementation. When this is done not only actual operations but also constant cross-checking and supervision of their progress would be greatly facilitated. Moreover, the preliminary analysis will help in concurrent evaluation of the effectiveness of the plan, will bring to surface any difficulties encountered, any assumption or expectations proved incorrect and will make possible continuous adaptation and adjustment. It is the great demerit of the existing approach, through standard departmental schemes, that it does not provide for or necessitate this preliminary exercise before implementation.

## VII

The exposition of the problem of district development planning attempted above has general application especially in those states in which the district is the main unit of the Panchayat Raj organization. However, there arise in district development planning a number of problems out of the special legal and administrative arrangements of each state. I do not intend to deal with these in any detail. However, the nature and characteristics of these may be briefly indicated by reference to conditions in Maharashtra of which I have the greatest knowledge.

Zilla Parishads in Maharashtra are endowed by legislation with specific planning powers. However, the proper exercise of these powers has been hampered by a number of factors. The first is finance. The financial resources available to the Z.P.s are chiefly in relation



to their specific administrative responsibilities and to individual development programmes or schemes which have been transferred to them. They have almost no 'free' resources which they could spend on their own. Moreover, all new programmes undertaken by them or any significant variations in the old are subject to detailed scrutiny and approval by the heads of relevant departments. It has, in fact, been alleged that the budgetary and administrative control of the secretariat and the departments over the Z.P.s is more stringent and harassing than over the district administration. Therefore, while Z.P.s in Maharashtra have been able to spend more money in a few specific directions they have not been in a position to, and have not been encouraged to apply their mind to local problems of long-term development planning.

While a number of subjects have been transferred to Zilla Parishads some important aspects of district development planning remain under direct control of state government. These are looked after by the residual district administration or by regional or state departmental officers. No arrangements exist at present for effective co-ordination of these aspects with those transferred to the Zilla Parishad at the stage of plan formulation or after. The non-transferred subjects in Maharashtra include forests, which are in most districts intimately connected with development of local resources and whose protection and exploitation require close co-operation of the local population.

In considering how the planning apparatus works, attention has to be paid, on the official side, to the secretariat, the state and regional officers of departments, the collector and the residual administration of the district, the chief officer of the Zilla Parishad and the staff under him. Even after the recent exercise at devolution, the secretariat continues to be dominant in planning. Its financial and administrative powers seem to have diminished in no measure and the scrutiny of detail continues as before. Though the Zilla Parishads have been given planning officers and were asked to prepare elaborate documents in relation to the 4th Five Year Plan, the state and district plans were, in fact, compiled in the secretariat and this work was little affected by the Z.P. documents. The role played by the secretariat in finance and overall planning is duplicated by heads of state departments and their regional officers in relation to details of departmental schemes. The departmental officers — state and regional — have usually considerable expertise and have, in many cases, detailed knowledge of particular localities. This expertise and knowledge are, however, not utilized for local development planning because of, at least, two factors. Firstly, the standard departmental schemes themselves are to a large extent derived from above *i.e.* from the Planning Commission

and the Central Ministries and the state technical officers have rarely subjected them to rigorous scrutiny in relation to particular regional conditions. Therefore, they are not disposed to favour such scrutiny at a lower level and to sanction adjustments. This attitude is reinforced by the feeling of estrangement from the district staff created by the establishment of Z.P.s and the transfer of the district staff to them. As the district staff is no longer directly controlled by the state department, the higher echelons of officers appear to have lost interest in the work of this staff. This has created a number of problems in the formulation and implementation of district development plans.

It was expected that with the establishment of the Z.P.s the collector of the district will lose his importance. This has not happened to any large extent, chiefly because the secretariat and the ministers continue to look upon the collector and his administrative staff as their own special agency. A number of local programmes such as of famine relief are still routed chiefly through the collector and this complicates plan formulation and co-ordination.

Within the official hierarchy itself one vestige of colonial administration, *viz.*, I.A.S. the successor service of the I.C.S., exerts great influence. The collector of the district and the Chief Officer of the Zilla Parishad both belong to the I.A.S. In colonial times, British personnel of the highest non-specialized service were naturally put in control of the entire district administration, which in those days was concerned chiefly with collecting revenue and keeping law and order. The central dominant position of members of the non-specialized service in district administration, continues to this day and has been carried forward to the Z.P.s which are patterned on the earlier district administration. Consequently, the functioning of the Z.P. has come to depend greatly on a single I.A.S. officer, the Chief Officer of the Z.P. The relationship with the non-official part of the Z.P. organization, on the one hand, and the effective operation and co-ordination of experts and of departmental offices on the other depend to a large extent on the efficiency and disposition of this non-expert officer.

The departmental officers whose services have been transferred to the Z.P.s are of fair average quality and are, in many cases, sincere and knowledgeable, specially in relation to local circumstances and problems. However, they suffer from two strong handicaps. In the first instance, they feel cut off from their parent departments and are yet uncertain of the shape the Z.P. service will take. Secondly, and more importantly, from the point of view of planning, they still operate within the older tradition which prevents the knowledge and initiative of lower ranks from being meaningfully used. They have been trained and are expected to carry out plans to the letter and not to examine them carefully or to express criticism of them, and they have learnt

by experience that it is better to follow instructions blindly rather than to adapt or to make suggestions regarding adjustment to local circumstances.

Finally, the establishment of the Z.P.s has not yet led to expected rationalization of arrangements of the field staff of the district. There are two sources of confusion. Firstly, the different backgrounds and assignments of the staff as derived from district local board, revenue and other departments, etc., and secondly the allotment of particular staff to each new set of schemes. The extent of staffing in the field in most districts of Maharashtra appears liberal. However, the failure to rationalize prevents effective use. Adoption of the integrative approach to district development planning should hasten the process of rationalization in this regard.

The non-official apparatus of the Zilla Parishads cannot be divided into well-marked groups for similar consideration. In one part, the problems are organizational such as that of co-ordinating the work of the subject and the area committees. The adoption of the mandi area, as the lowest area unit of planning, would require some modifications in existing arrangements regarding area committees and delegation of powers to them. In another part, the problems relate to the socio-economic composition of local leadership<sup>9</sup> and to the operation of the political party system. Further complication of the latter may result from different parties being in control of different Zilla Parishads and the government of the State. Most of these problems have no direct bearing on district development planning and need not be discussed here.

The relationship of the non-officials with the official hierarchy is also an important factor in the working of Z.P.s. In this case also vestiges of the older order remain in the undue importance attached to official position. However, the situation in this regard is undergoing rapid change.

It should be noted that the Zilla Parishad experiment is new and that the present is essentially a period of transition. There is nothing in the basic situation which would militate against district development planning of the type discussed in this lecture being undertaken. Today's problems are chiefly those of the changeover from a highly centralized administration to one in which large powers are vested in local self-government authorities. There exists at present a widespread distrust of lower authorities and a fear of giving large powers to them among those at all higher levels. Therefore, even when legislative arrangements are changed administrative practice

<sup>9</sup> For a discussion of some of these in another context, see D. R. Gadgil: "Socio-Economic Factors underlying pattern of leadership" in *International Co-operative Alliance : Co-operative Leadership in South-East Asia, 1963*.

continues to block real devolution. This is not expected to be a permanent feature. Pressure of circumstances and changing ideas are bound to bring about greater conformity between intention and operation. It is hoped that a proper appreciation of the existing situation will lead to voluntary deliberate adjustments rather than to *ad hoc* reluctant steps taken under pressure.

### VIII

Before concluding, a few observations appear in order regarding the feasibility of the approach suggested above. On a first examination it may appear that the approach requires resources to an extent which could not be expected to be made available and that it also asks for too detailed an operation. A close scrutiny will show that this is not so. In fact, it is experience everywhere that effective rural work is not possible without descending to details and the agricultural production programme envisaged above is, in principle, no different from what is attempted in agricultural extension in any county in U.S.A. Moreover, as of today the personnel resources required for the field work sketched above are for the most part available on the ground in most districts in India.

There are chiefly two directions in which new inputs will be required. Firstly, local survey and research in all fields. This is a completely neglected area today. In part, the gap can be filled by drawing on the resources of existing academic and training institutions in the district. There are three phases to this work. Firstly, collecting systematic information in relation to each field and identifying problems; secondly, conducting research locally, chiefly in relation to proving, adapting and adjusting standard prescriptions and solutions in relation to local conditions; thirdly, training local personnel engaged in plan formulation and implementation in specialized aspects of the work in each field. It is true that the existing academic and training institutions are not equipped for this work. However, no insuperable difficulty should arise in making good this deficiency. For example, the staff of the department of economics or commerce in a local college could easily be trained to undertake the preliminary and the later continuous economic surveys; it could also be trained to impart instruction to district staff in appropriate planning techniques. Staffs of local agricultural institutes, polytechnics, public health or medical schools could be utilized in a similar manner. Obviously, existing resources will prove insufficient; more institutions will have to be established and they would have to be properly oriented. However, not only could local institutions play this important role in planning but also their efficiency and competence should greatly increase by this parti-

icipation. A minimum programme of new institutions is unavoidable. For example, each district must have at least one agricultural research-cum-demonstration centre; but such action is an inevitable concomitant of development itself. As indicated above, the initial survey etc. is no more than a preliminary step. As local planning becomes more detailed and more effective it will have to be supported by systematic collection of a greater amount of data and by greater research in depth in all fields. And with the progress of development planning the resources and competence of local academic and training institutions must also increase.

The second important input required is that of entirely new methods of work and new attitudes towards it. The new attitudes are required chiefly in two directions. Firstly, the adoption of the problem-solving attitude towards all aspects of development planning by all participants in the process; secondly willingness to trust the judgement and competence of and delegate authority to personnel on the lower level on the part of all on each of the higher levels. The new methods are those required particularly by the adoption of the problem-solving approach. Even if one begins operations, as a matter of convenience, with a standard departmental scheme this approach requires scrutiny of each of its details in relation to local resources and local circumstances. Defining objectives, translating objectives into programmes of work and putting programmes in the form of a set of schemes will all require new methods of detailed work even when one works on the base of the old. Also the putting together of plans, especially what has been termed above co-ordination and synchronization will necessitate evolution of new methods as also a thorough analysis of the plan for implementation.

Effective district development planning will thus not require new financial or physical resources in any considerable measure. It will call for a better utilization of old resources, for a reorientation of the existing set-up and, above all, for new attitudes and a readiness both to trust more and to delve deeper.

## ORIGINS OF THE MODERN INDIAN BUSINESS CLASS\*

### *Foreword*†

THE idea of undertaking a study of modern Indian business which I had vaguely carried in my mind for some time, crystallised as a result of discussions with Mr. William L. Holland, Secretary-General of the Institute of Pacific Relations, at and after the Lucknow Conference of the Institute in 1950. Subsequently I wrote out a memorandum on a study of Indian business communities, giving an outline of a project which might jointly be sponsored by the Institute of Pacific Relations and the Gokhale Institute of Politics and Economics and conducted by the Gokhale Institute. Before my talks with Mr. Holland, I had suggested a part of this study as subject for the thesis of a student (Shri M. V. Namjoshi) who had enrolled with me for the Ph.D. degree. He had already done some work and, at my request, produced a short memorandum on the type of material that would be available for the projected study, illustrating some uses to which it could be put. This memorandum together with the outline and a short introduction by me, was mimeographed and issued by the Institute of Pacific Relations early in 1951.

Soon after this, a programme of investigations based on the outline prepared by me was set in motion. We began with bright hopes regarding the results of enquiry, as the authorities of the Royal Institute of International Affairs in London had also indicated that they might be interested in a parallel study of European business in India. The two studies could obviously be conducted together and the research student who prepared the memorandum and two others (Shri G. P. Bhave and Shri S. S. Ahluwalia) were therefore commissioned with investigational work which was in full swing before the end of 1951.

The initial expectations proved to have been too optimistic. The first setback was due to the reaction of the European business community in Calcutta. As a result of this, the Royal Institute lost interest in the parallel study which was quietly allowed to drop. But the study of Indian business was pushed on, and before the end of 1952 an interesting body of material had been collected. It became

\* An Interim Report, prepared with the assistance of M. V. Namjoshi, published by Institute of Pacific Relations, New York, 1959, pp. 1-46.

† Dated March 31, 1959.

clear, however, as we proceeded that detailed contemporary material would be difficult to obtain and that, in particular, material which shed useful light on the working results or operative policies of individual business or small groups of them would not become available.

A careful analysis of the situation made me realise that over large fields, such as that of small-scale industry and most of trade and transport, published data were almost non-existent, and brief, systematic investigations were difficult to plan and conduct. In the field of factory production, the published data were available to a significant extent. However, in order to attempt, in that field, any special studies of production structure, labour policies or financial relations would require much more information than was available in published form or could get gathered from private business organisations. There were some aspects (such as that of trade associations) on which sufficient data could be gathered but there were others (such as that of combination, interlocking and influence with Government) concerning which it appeared impracticable to obtain adequate data.

Within two years of the launching of the project, therefore, considerable rethinking appeared to be necessary. Collection of data as planned originally had gone as far as it could; but the material collected was not sufficient to cover the major part of the field sketched by me in the memorandum published in 1951. It also appeared that considerable new legislation relating to Public Companies, managing agencies, etc. was on the anvil and that this would have to be taken into account in the presentation of any modern picture. Because of all this, systematic work on the project inevitably was suspended. In the meanwhile, the research student who had been first put on part of the subject and who had prepared the memorandum continued individual work in the field and, in subsequent years, presented a thesis for which he was awarded the doctorate.

My own thinking about a fruitful approach to the study took a larger and larger historical turn. The original outline had presented the study as essentially confined to modern times. It had indicated that the main work would be that of assessing and explaining the growth of a variety of activities, of adopted techniques and of the economic and political influence of the modern business class between 1914-1949. The reference in the outline to historical material was couched in the following terms: "Going further back in historical times certain rough notes may, with profit, be made regarding the characteristics and the relative importance of dominant business classes and castes as noted by early British administrators and non-officials. It will be the aim of the survey to show, in a rough manner, how the traditional business classes and castes accommodated themselves to the new sets of circumstances during the 19th century and to what extent

their methods and behaviour patterns had already been modified by 1914. This review of the earlier period would also take note of any new forces or groups from outside the range of the traditional commercial classes that had arisen in the intervening period. This part of the survey will not, however, be pursued in any detail. It is likely to prove a fascinating study, but may distract attention too much from the main work unless kept within very strict limits."

The 1951 memorandum was called *Notes on the Rise of Business Communities in India*. This title was justified by reference to the "importance, in the Indian context of social divisions and stratification." Though businessmen belonging to different communities were seen to act together or operate as a single pressure group it was felt that the members of the different communities did not "show a similarity of behaviour patterns or a degree of social cohesion which would justify their being called members of one business class."

While the above judgement was just and continues to remain largely true, a study of the historical material seemed to me to emphasize another aspect. Any attempt to understand the present position and activity of any business community led inevitably into the history not only of that community but also of all others forming an integrated economic pattern. The more I looked into the historical material, the more was I struck by the element of continuity in the evolution of modern Indian business and the extent of integration which appeared through the ebb and flow in the fortunes of individual communities.

In the last paragraph of the outline I had written as follows: "The projected study could not cover all the ground fully as it is intended to be no more than a preliminary sketch. An authoritative and fully documented study of the subject could be undertaken only after detailed investigation of each particular aspect and region had been completed leading, in the first instance, to the preparation of a series of monographs. This, however, is work more of the strictly academic type which would have to be pursued later, if at all, independently of the project under consideration. This project would be directed chiefly to evaluating the importance and judging the main characteristics of the business class so that its role in current events may be better appreciated and possible future trends better estimated."

This short-term approach foundered on two types of obstacles. The first, as indicated above, was the lack of adequate recent data and the rapidly changing contemporary situation. The other was the felt need for at least a brief historical study to provide a frame for an assessment of the present situation. It became clear as one looked into the historical material that, though a number of monographs on particular periods or aspects had appeared during recent decades, a comprehensive view of modern Indian economic history,



especially in relation to growth of modern business had not been taken. This part of the task appeared, therefore to be that of writing serious economic history even though based on secondary sources. As the field was almost uncharted, it became necessary to organize bit by bit the total data in some sort of meaningful sequence. The basic geographical characteristics of different regions, the changing political situation and policies of various regimes, the qualities and the degree of adaptability displayed by particular business communities, the pervasive influence of British power and British business interests operating against the background of a technological and industrial revolution — all these had to be taken into account for an understanding of the situation. I hesitated greatly before launching on this study because it meant working in fields with which I had been unfamiliar for a long time and also because this required intensity of attention and thought which other duties and responsibilities seemed to preclude. However, a commitment had been made and therefore by fits and starts, with many checks and disappointments the work continued, and the penultimate draft of the opening chapter, at Mr. Holland's suggestion, is now being circulated for preliminary reactions and comments. It is hoped to send the entire work to the press within a few months' time.

The results of changing over to a broader canvass would appear even on an examination of this draft first chapter. The introduction to the 1951 *Notes* was devoted mainly to short descriptions of the main Indian business communities. Considerable space is devoted to a description of these in the present draft chapter. However, the present sketch is, I believe, better balanced and more informative because of its being presented against a much wider background.

While in this manner the historical study goes farther back and is made much fuller than had been contemplated earlier, a detailed study of the present situation remains a major concern of the study. However, the organisation of the material regarding modern developments is likely to be substantially different than that presented in the original outline. The rapid growth of modern business during the last decade, the introduction of the concept of planning and the comprehensive legislative and regulatory systems that have recently come into existence give the study of the present a turn which could not have been foreseen in 1951. Furthermore, through official enquiries and returns a mass of data are available, particularly during the last three or four years, which remove to some extent the difficulties on account of which we were bogged down in 1953. Though in some respects much more data are available today than before, in others, (especially in regard to production economics) the data continue to be somewhat limited. The categories themselves in which thinking has to be presented have

been changed because of recent developments. Control may be more important than ownership in the present context.

This first draft chapter of the revised form of the study is presented tentatively and with great hesitation. In many aspects the data are scanty and the filling in of gaps and the reconstructions have had to be large. However, such work is essential as a precursor for more thorough study and if only as a frame which focuses criticism.

The more I study the economic, political and social situation in India, the more I am impressed with the need to be fully aware of the continuing forces which have shaped the situation through the past. Because perhaps Indian society through recent centuries has suffered no cataclysmic or revolutionary changes, in our socio-economic structure and in all motivations, in procedures, habits of thought and patterns of conduct, influences from the past appear still to play a very large part. Hence, for an understanding of the past, for a projection of the future, or even for preparing deliberately for a radical programme of change, a careful study of these continuities seems unavoidable. It is this feeling mainly which has turned the original project into a much more historical and, perhaps, more academic study. It is hoped that it will also make it at least a little richer and more meaningful.

### *Introduction*

We are concerned in this study with "Modern Indian Business". In this phrase, the word "business" covers all kinds of economic activity but has more particular reference to industrial and trading activity. In the rise and growth of all modern business in India a very large part was played by non-Indians. Therefore, in tracing the rise and growth of modern Indian business, very considerable attention has to be paid to non-Indian businessmen and their activities in India. This has been done throughout this work.

The term "modern" is more difficult to define. It could be used in a purely chronological sense. Modern business is business during, say, the last two hundred years. The chronological implication is not altogether absent from our treatment, but an additional element has been introduced. "Modern" in this context relates more specifically to those features and forms of economic activity which have arisen in modern times, particularly to those associated with developments following upon the Industrial Revolution in England. Organisation of economic activity after the Industrial Revolution itself gradually evolved from institutions and patterns which existed previously. In India, non-Indian and Indian business existed side by side long before the Industrial Revolution and non-Indian business had already affected, in many ways, the conditions in which Indian businessmen operated. In the

circumstances, the transfer of the organisational and other features associated with the Industrial Revolution to India could be observed only through a general study of all Indian and non-Indian business in the period. And the best way to study the rise of modern business in India is to start from a point of time immediately prior to the Industrial Revolution and to trace the subsequent changes in the total situation.

This has been attempted in the following pages and this is one of the reasons for placing the date of the opening picture at about 1750. Another reason for choosing the year 1750 as the starting point is that it is round this time that changes came about in the role played by Europeans in the Indian political scene. The possibility of assuming a changed role and of directly intervening in Indian political affairs with large potential economic advantage to oneself was perhaps first seen by Frenchmen, in particular by Dupleix. This happened within a decade or two prior to 1750. However, the acts of intervention, which became successful in the long period and were followed by continuously expanding spheres of political and economic influence, were taken by the British; and the beginning of this movement can be squarely placed within the first decade after 1750.

### *1. The Political Situation about 1750*

The political scene in India towards the middle of the 18th century was one which showed continuous shifts and uncertainties. In 1750 the Mogul Emperor's rule effectively and directly covered only a small extent of territory in the North. For the larger part of the country the Mogul Empire's place had been taken by a number of successor states. Some of these had been created by former Governors or representatives of Mogul authorities in particular regions (for example, in Oudh, Bengal and Gujarat). Others had been established by successful opponents of Mogul authority; these were represented notably by Marathas over a large part of Western, Central and Eastern India and later by Sikhs in the Punjab. The type of authority exercised by the Marathas over the different parts under their control varied. For part of the territory occupied by them (especially in their homeland in Western India) they constituted direct rulers. For other large parts (especially in Central India) they claimed merely the right to a part of the revenue collection. In effect, however, this claim led to efforts at establishing political authority, for the only effective way in practice of obtaining the part of revenue collection was to establish political authority and collect the revenue oneself. The area and the effectiveness of Maratha rule over large territories varied because of differing concepts relating to the justification of their occupation. In the South

the situation was essentially fluid and the country was occupied by a number of units representing former Mogul Governors, dynasties of older Hindu Kings, local chiefs or merely military adventurers (Muslim or Hindu). By the second quarter of the 18th century an important additional disturbing element had been introduced in the political situation — the activity of the European powers.

The situation at the middle of the 18th century was thus fluid in the sense that there was considerable possibility, in most areas, of changes of regimes, of expansion of one power at the expense of another or of the rise of entirely new elements. It should be noted that this was not peculiar to the middle of the 18th century. Considering India as a whole it may indeed be described as the normal situation for most times. Ever since the invasion of the Muslims, changes had been continuously taking place in dynasties at Delhi and in the extent of the sway of the Delhi dynasty over its Governors in the Provinces. The Deccan and the South had been till the middle of the 17th century almost entirely out of the sphere of influence of the regime at Delhi and its governments exhibited a changing pattern of a number of Muslim Sultanates and Hindu Kingdoms. Parts of the regions under the rule of Akbar and his immediate successors presented a period of comparative stability for some decades. But even so, looking at India as a whole, we find that the picture in, say, 1650 is not strikingly different from that in 1750. In South India the pressure of Mogul invasions had, in 1650, completely upset the comparatively stabilised pattern of the previous century and had ushered in a period of great disturbance and rapid change. Contemporaneously upheavals were taking place all over the rest of the country and even after the end of the fratricidal wars, out of which Aurangzeb emerged successful, large parts of the country in North and East India remained in a disturbed state. No doubt in about 1650 a fairly large area around Delhi had enjoyed a long period of comparative peace. It may, however, be said that in 1750 not the total picture but its balance had altered. Only in the 18th century, it was chiefly territory in Western India (say, around Poona) which enjoyed a comparatively long period of peace, instead of the region around Delhi.

One curious feature of the situation in 1750 which was distinctly the legacy of the Mogul Empire should be noticed. Though the actual rule of the Mogul Emperor had mostly passed, the notion of its legitimacy still persisted; this fact afforded an important avenue through which the representatives of European powers in India could make effective their schemes of aggrandisement.

The impact of Europeans on Indian economic activity ante-dated the industrial revolution by centuries. However, for the purpose in hand, the importance of this earlier period is small. For more than

two centuries before 1750 Europeans had dominated the seas around India and had largely controlled India's external trade by sea. The Portuguese, who had arrived in the country at the end of the 15th century, had within a few decades, by their campaigns from the Red Sea to Malacca, substantially wrested from the Arabs control of the trade in the Indian Seas. However, the Portuguese indulged largely in political and missionary activities and behaved more as conquerors than as merchants. All these roles they were unable to sustain; so that when, in the 17th century, the Dutch and the English emerged as potential contestants, the Portuguese were no longer in a strong position to defend their trading monopoly. The Dutch, the English and the French successively entered the field, but all of them limited their activities to trade in India and made no significant attempts at gaining political power till the first half of the 18th century.

The operations of the Portuguese also were confined to the West Coast of Peninsular India and the largest contiguous land territory over which they exercised jurisdiction was the territory round Goa. Whatever the permanent effects of this impact on the territories occupied by the Portuguese and their immediate neighbours, they had little influence for the most part on political happenings in the rest of India.

The technical superiority of the Europeans at this time lay chiefly in the building and performance of their ships and in the manufacture of fire-arms. This was, of course, important in securing for the Europeans their foothold in India and their ability to maintain and defend their trading posts, sometimes against the opposition of the neighbouring Indian States. It gave them also a great advantage over the Indian traders and navigators and enabled them to fight piracy on the sea. Throughout these centuries the prevalence of piracy over large areas must be considered a normal feature. The ability of the better constructed and swifter European sailing vessels to fight pirates was increased by the practice of their being armed. The need for European ships being fitted for warlike purposes derived not only from the existence of piracy on sea but also from frequent wars between the European nations themselves and their constant attempts to dislodge one another from favourable positions held by rivals all over the African and the Asiatic countries.

## *2. The Condition of Agriculture about 1750*

We may now turn to a brief description of economic conditions within the country in 1750. The predominant characteristic of Indian agriculture may be defined as self-sufficiency. Self-sufficiency, in this context, is to be interpreted as that of the village or of the region and not as that of the individual household. Self-sufficiency was mani-

fested in the extent to which agricultural production was for local needs and the extent to which consumption habits in any region were determined by what was produced by the agriculture of the region. The cereal foodgrains and pulses that formed the staple food of the people, the type of vegetable oils that they used and the extent and type of sugar or sweetening material consumed were very largely determined by local and regional agricultural production. As a natural corollary of this, the greatest possible diversity was attempted in local agricultural production. The extent of this diversity was, however, limited by physical conditions.

The relative self-sufficiency was the result of the narrow range of the market for agricultural products. The most important limiting factor, here, was transport. Ordinarily transport was costly and time-consuming. It was overland by means of pack animals; in the special circumstances of the coastal areas and of regions where, at least for part of the year, inland water transport was possible, there was a greater range of transportability. However, inland water transport was, in the main, limited to the major river systems, such as those of the Indus, the Ganges, the Brahmaputra, the Godavari and the Krishna and for the most part, the range of transportability across country from the river systems was limited. It remained true that where comparatively cheap water transport was available there could arise some fairly long distance trade even in grain. Otherwise, bulk and perishability limited greatly the range of transport and trade in all kinds of agricultural products.

At the same time, within limited regions, transport and trade were carried on in a variety of agricultural products. Many parts of India were, as compared with other countries at the same period, comparatively urbanised. The most urbanised parts were normally either those which were well served by sea or by internal water transport; this was the case, for example, with the comparatively well developed regions of Gujarat and Saurashtra and also of the region of Bengal and Bihar. However, even elsewhere in India city and town centres were fairly well developed. The existence of numerous towns postulated the emergence of a surplus in agricultural production which was available to sustain the needs of the urban population and the feeding of towns and cities required a certain level of transport facilities.

The establishment and operation of organised governments holding sway over large areas and with fairly well developed administrative systems also pointed to the existence of surplus agricultural produce. These governments involved the existence of a court, of military and administrative personnel and urban centres which served as foci for the residence and operations of this personnel. The main sources of revenue of all governments was taxation of land. By the middle of

the 18th century, in most parts of India, land revenue payments had been commuted from their original form of a share of the produce (paid in kind at harvest) to that of a money equivalent. The ability of the peasant to pay the money equivalent of a substantial part of his production in taxation involved the possibility of transporting agricultural produce and selling it for money within distances that were practicable.

To the revenue demand of the State may be added the payment of rent to the landlord. No generalisation can be made regarding the size of the class of rentiers, the volume of rental payments or the extent to which the rentiers lived in urban centres. However, in certain circumstances this may have been substantial.<sup>1</sup> It should be noted that the revenue (or rental) payments induced export of agricultural produce but did not usually lead to a corresponding increase in the purchasing power of peasants or in the rural demand for non-agricultural produce. The export or sale of produce helped in paying the dues owed to the state or landlord by the agriculturist but did not usually give him resources in exchange with which he could buy significant quantities of the products of urban industry. It has to be remembered in this connection that the revenue demands of the State on the peasant were always comparatively high. The absconding of peasants, which had become a serious matter for the administration even in the early part of the reign of Aurangzeb (1665-1670), is a sign of the extent to which the burden of revenue payment pressed on the peasant.<sup>2</sup>

Thus the consumption pattern of the agriculturist was chiefly determined by local production and any surpluses he may be supposed to have were absorbed largely by the demands of State authorities and of rent. The trading in agricultural produce was, in the main, local or regional and operated largely as the means through which the revenue was collected and the supplies of agricultural commodities needed to sustain urban centres were obtained.

For the larger part of the North India for many centuries before 1750, not only the intensity of the revenue demand but all other features connected with the operation of the system discouraged both individual personal effort and general agricultural development. This

<sup>1</sup> An entry, relating to the year 1797-98 in the Selection from the Peshwa's Diaries gives names of nearly 175 persons (all apparently Brahmins from Konkan) employed in the administrative offices of the Peshwa who were exempted from payment of transit excise through the passes of the Ghats, etc. on the imports made by them of rice and other products from the Konkan. The imports would mostly represent bulk purchases made in the Konkan but might also partly represent receipts of rent. They point to streams of internal trade set up by important internal migration movements. *Selections*, V. Bajirao II, pp. 201-207.

<sup>2</sup> W. H. Moreland, *Agrarian System of Moslem India*, 1929, p. 144.

is best expressed in the following extracts from Sir W. H. Moreland's book.

"Finally, a few words may be said regarding the economic significance of the fact which have been brought together. The idea of agricultural development, progressing slowly but continuously, was already present in the fourteenth century, and probably was never entirely lost; but the political and social environment was usually unfavourable to its fruition. The high pitch of the revenue demand, approximating to the full economic rent, could be justified from Islamic texts by anyone who might care to take the trouble, but its actual motive was to be found in the needs of successive administrations and their officers; and its influence was necessarily increased by the miscellaneous exactions, prohibited from time to time, but recurring regularly after each prohibition. The direct result was to take from the peasant whatever he could be made to pay, and thus to stereotype a low standard of living; but in addition there was the further effect of requiring the peasant who was making money to conceal his good fortune from everyone outside the village, and perhaps even from his neighbours. Thus the normal position was a contest between the administration and the peasants, the former endeavouring to discover and appropriate what the latter endeavoured to retain and conceal—an environment in which agricultural development could not be expected to make much headway."

"If the land had been fully occupied, such a position could not have continued for long, because competition among peasants would have resulted in an increase of their payments to a point where either life ceased to be worth living, or the administration was forced to change its attitude, as in fact was to happen in the nineteenth century over the greater part of India. Throughout the Moslem period, however, there was usually land to spare, and the risk of losing peasants set some limit to administrative exactions. It is, I think, probable that the risk frequently became a reality in one part of the country or other, and that local depopulation occurred from time to time, though not on a scale to attract the chroniclers' attention; but two instances stand out in history, the desolation of the River Country under Muhammad Tughlaq, and the general economic collapse after the middle of the seventeenth century. In both cases, the administration strained the existing system to the breaking-point, and the system in fact broke down; but during the longer periods when the system worked, its worst incidents were the repression of individual energy, and the concentration on a barren struggle to divide, rather than a concerted effort to increase, the annual produce of the country. This was the *damnosa haereditas*, the legacy of loss, which Moslem adminis-



trations left to their successors, and which is still so far from final liquidations."<sup>8</sup>

This description did not necessarily apply to the South, especially before the 16th century. However, the fall of the Vijayanagar Empire and the beginnings of the Southern campaigns of the Mogul emperors which followed within a few decades of that event led to great upheavals in the South and to very unsettled conditions within the region during the 17th century. The prevalence of general self-sufficiency in products of agriculture did not mean that there were no specialised products and that sometimes these were not traded over long distances. Even the carriage of grain for large distances overland in considerable volume was absolutely essential for all military operations of the time. As a result, we see growing in importance the special business of big pack-animal carriers who satisfied the needs of the military on the march. Apart from the carriage of produce for the military, there were also specialised products in which long-distance trade took place. Usually, these were products whose cultivation was for one reason or another limited to particular areas. The most important of such products entered also into foreign trade: indigo and pepper typified this class. However, some trading might take place even in products which were more widely grown. As an illustration of the general self-sufficiency characterising the era we may point to the comparatively widespread cultivation of cotton throughout the country. Cotton was the staple fibre for all clothing, and the spinning of yarn and weaving of cloth were carried on throughout the country. Ordinarily, local production of cotton met the needs of local industry and the cloth produced was mostly consumed in the neighbourhood or within the region. In these circumstances, regional production of cotton and regional demand for cloth would act as limiting factors on the growth of the weaving industry in the region. If by reason of special circumstances the demand for the production of cloth industry in any region increased, it would stimulate local production of cotton and even give rise to need for importing of cotton from other regions.

It would appear that during the 18th century such importation of cotton became necessary in two areas: Bengal and the coastal districts of Andhra. The demand for cotton imports in these regions has to be related chiefly to the large purchases of cloth for export by agents of foreign factories. There is little evidence, at this time, of any large long-distance trade within the country in ordinary types of cloth. All-India trade in cloth was then confined to highly superior varieties

<sup>8</sup> *Ibid.*, pp. 207-208.

ties. This was luxury trade, of perhaps high value, but of limited physical volume. Such trade would not greatly increase the demand for cotton from the industry of any region. It was the greatly increased bulk demand for exports in the case of the Bengal and the Andhra industries which made the local supply of cotton insufficient in their case and led to the needs for importation.

Another important region where there appeared an equal pressure of demand for cloth from foreigners was Gujarat. However, in this case the possibility of the increase in local production of cotton appears to have been considerable and, therefore, the mounting demand for cloth exports did not result in a demand for the import of cotton into Gujarat. Cotton appears to be the only important example of a staple agricultural product entering into internal trade over long distances in the middle of the 18th century. However, we have little knowledge of either the volume of this trade or its consequences, if any, on the economy of those regions from which cotton was exported. The trade in cotton, in this case, would represent a type of transaction differing essentially from the export of agricultural produce undertaken for the satisfaction of the revenue demand. Satisfying the export demand for cotton would involve problems such as of expansion of areas under commercial crops, of trading in and financing of the crops and the introduction through these of the trader and the money-lender into the rural economy. In short, this would lead to a commercialisation of agriculture which would be the precursor of the modern phase. Information on trade in cotton, during this period, is scanty. However, in relation to indigo, where the problems would be similar, data are somewhat ampler and show that the introduction and establishment of a commercial crop like indigo in an area introduced trading and financial practices which were strikingly similar to those in the general commercialisation of agriculture in the succeeding century.<sup>4</sup>

The main points emphasized so far are self-sufficiency of the rural economy, the lack of commercialisation, the one-way flow of surplus agricultural production to town centres and the exceptional character of the trade in such products as indigo and cotton. We may also note the comparative divorce of the urban financing and the trading sys-

4. For the indigo trade at Bayana in the early 17th century, with the practice of making advances against the crop some months beforehand and binding the debtor to sell to no one else, see E. Palasart, *Lehany's India*, pp. 15-16. Buchanan, describing conditions in Malabar in 1800, notes the existence of the same practice, to the great advantage of the cultivator who had to take the advances in the marketing of both coconut and pepper. D. H. Buchanan, *Development of Capitalist Enterprise in India*, 1934, pp. 401 and 455.

tem from the rural economy. To the extent that urban influences were important in the countryside these were through the state and the revenue authorities; therefore, contacts with the rural economy were established with trading or financing communities chiefly when any of these undertook the "farming" of revenue.

This account of the rural economy has to be completed by reference to the risk and incidence of crop failures. To the extent to which regions were landlocked and export of agricultural products was not possible for them the cost and difficulty of import was also great. Therefore, for the larger part of the country a serious crop failure could result in physical shortages of supplies which could not be met by imports. In such circumstances large-scale migrations of persons and cattle followed any serious failure of rains and a succession of bad harvests could have a crippling effect on the economy of a tract for a whole generation.<sup>5</sup>

It is true that from times immemorial the maintenance and extension of irrigation works was a responsibility attached to the King and the administration, and in times of comparative peace this was always attended to. In fact, the usual good acts attributed to a King included, among other things, extension of sources of water supply and irrigation. However, such extension could be undertaken only fitfully and by a few. On the other hand, the periodic unsettlement caused by wars, pestilence and famines led to frequent non-repair, disuse and disrepair of means of irrigation, so that the net advance in any period was not likely to be great.

The countryside, and in particular agriculture, were thus not in a position to make any substantial contribution, in 1750, towards the growth of modern business in India. All the elements which had the opportunities, the ability and the resources to do this belonged to the urban sector. It is thus necessary to present at this stage some salient facts relating to cities, trade and trade routes in India towards the middle of the 18th century.

### 3. *Urbanisation and the Size of Cities*

It would appear probable that the extent of urbanisation in India about 1750 was comparable to that of England, France and Italy. It is, however, not possible to adduce firm statistical evidence for this statement. We have no estimates of the population of India or any of its major regions during the 18th century. We do not even have reliable figures relating to the size of individual cities. Detailed examination of contemporary records regarding the number of houses, etc. in Poona led to estimating the population of that city at about 40,000 in 1760; it had reached over 100,000 before the end of the century.

<sup>5</sup> See W. H. Moreland, *From Akbar to Aurangzeb*, Chap. VII, pp. 205-220.

At the beginning of the 18th century, Poona probably could not have contained more than 10,000 persons. These figures indicate the growth of a city which during the 18th century rose very rapidly to great political importance, but was not originally, and did not become in the process of growth, an important industrial or commercial centre.<sup>6</sup>

Figures relating to most other cities are based on reported estimates of contemporaries, and wherever there is more than one estimate, they usually seem to differ widely.<sup>7</sup> It is, however, clear that European travellers were greatly impressed by the populousness of Indian cities at this time. It is well known that Clive considered Murshidabad of his time as comparable with London. Great changes would take place in the fortunes and consequently of populations of individual cities within a matter of few years. Delhi, for example, suffered rapid decline during the first half of the 18th century and the Punjab towns passed through very troublous times. The changes in the fortunes of Indian cities in many parts of the country were also rapid during the latter half of the 18th century. We have almost no data for population of Indian cities during the 18th century and relatively little reliable information for even the first half of the 19th.

Some idea of the size of the towns in early 19th century may be gathered from the data collected and set down presumably from the most authentic and contemporary records in a publication like Thornton's *Gazetteer*.<sup>8</sup> This gives the most reliable available estimates, usually for some years between 1800-1840. We may first cite the data for cities which may be presumed to have suffered decline in population since 1750. They are Dacca, 100,000 (round about 1814), Murshidabad 152,000 (1830), Agra 75,000 (1840), Patna 300,000 (early 19th century), Nagpur 110,000 (1840), Tanjore 80,000 (1840). In the case of all these cities, there had been some decline in political and economic importance during the preceding half century or more. The

<sup>6</sup> D. R. Gadgil, *Poona: A Socio-economic Survey*, 1952, Chap. III.

<sup>7</sup> The careful account of early population estimates contained in the *Gazetteer of Bombay City* (1909) illustrated the nature of the data for a city for which they are unusually plentiful. For the century before 1750, we have the following important estimates: 60,000 (1670); 16,000 (1715) and 70,000 (1744). For 1764, we have two widely differing estimates (140,000 and 60,000) which are both held unreliable. For the first quarter of the 19th century, general censuses put the population at about 200,000. Rough counts in 1846 and 1864 give figures of 566,000 and 784,000 respectively, while the censuses of 1872 and 1881 put the population at 644,000 and 773,000 respectively. In common with many other places, the counts in the decades preceding the regular census, appear, as compared with its results, to be over-estimates.

<sup>8</sup>A gazetteer of the territories under the government of the East India Company and of the native states on the continent of India, compiled by the authority of the Hon. Court of Directors and chiefly from documents in their possession by Edward Thornton in four volumes, 1854.

figures, however, do not enable us to estimate how large the cities had been in 1750, or even to estimate their relative ranking. For example, Dacca, Murshidabad and Patna had all been described as very large cities in the first half of the 18th century. All had declined considerably after 1750, but it is likely that Murshidabad and Dacca declined much more rapidly than Patna.

An estimate of the population of Surat in the latter half of the 18th century puts it at about 300,000. It may be noted that travellers' reports of the 17th century describe both Surat and Ahmedabad as very large cities with populations estimated at a million each. Even if these figures are heavily discounted, a period of decline after a peak in the 17th or early 18th century has to be postulated for both Ahmedabad and Surat. The figures cited above would imply that the decline in the population and trade of Ahmedabad had taken place chiefly before 1780 and that the position had since been stabilised. The decline of Surat on the other hand, appears to have taken place chiefly after 1750. The determinants of the population of the cities are a variety of factors. Mirzapur, which in 1840 is described as the greatest cotton market in India, had at the time a population of only 80,000. There appear two important old cities in whose cases the decline, because of continued political and other importance of the cities, may not have taken place or may not have been marked; the cities of Hyderabad and Lucknow, are credited with a population in 1840 of about 200,000 and 300,000 respectively.

(This account of Indian cities may be supplemented by special reference to cities that arose directly as the result of the activities of Europeans. Most of these had their origin in grants of lands or villages obtained from a Prince or a local Chief where the European Company first built some residences and warehouses, which it usually proceeded to fortify. The activities of the European traders were initially located in existing important centres of trade as in Calicut, Surat, Tatta, Agra, Patna, Masalipatam etc. The need for an independent establishment of its own would arise chiefly in areas where either there was no large concentration of activity in particular places or where for any reason these had become unsuitable. The southern part of the Coromandel coast and the delta of the Ganges appear to have invited settlements on account of such reasons towards the end of the 17th century. In 1750 Tranquebar, Nagapatam, Pondicherry and Madras had been created respectively by the Danes, Dutch, French and English on the Coromandel coast and Calcutta, Serampore and Chandranagore by the English, Danes and French in the Hooghly area. The establishment of Bombay, on the other hand, appears more as the result of a historical accident of a European royal marriage settlement than that of geographical situation or need.

The absence of large established centres, and unsettled conditions in the neighbouring country both existed in the South Coromandel coast area. To these was also added the important factor of the suitability of this coast for trade further towards the East. In the century preceding 1750 the growth of activity of European companies and traders in the Southeast Asia and China trade had been very considerable and so had been the growth of their rivalry in the trade. A station on the Coromandel coast was important to these companies as the base of activities in this East and South Asia region. The need for a centre in the Hooghly region arose chiefly out of the rapidly increasing volume and value of the trade of Eastern India.

While the original establishments of the settlements by European companies on the South Coromandel coast is to be attributed to the needs of their trade, the growth of these establishments appears to have been due chiefly to the greatly unsettled conditions in this part of the country. The absence of a strong ruler enabled the European companies to establish fully fortified towns and continuous settlement in neighbouring regions attracted to these centres large numbers of Indian traders, artisans, etc. The total effect of this combination of circumstances was such that in 1750 Pondicherry and Madras would appear from all accounts to have been among the largest of South Indian cities. And this was in spite of the fact that they had not become important centres of any artisan or other industry and that no considerable trade in agricultural or other produce originated in their hinterland. Older estimates of the population of Madras are somewhat difficult to interpret. The census of 1871 gave the city a population somewhat less than 400,000 and that of 1881 a little over that figure; earlier in the 19th century an enumeration in 1822 returned 470,000 and in 1867, 450,000. For 1763, there is an estimate of one million and some years later of 750,000. These 18th century estimates appear excessive; even so the population of Madras city seems likely to have been about 300,000 in 1750 and this would place it in the class of the largest of Indian cities.

Calcutta was reckoned to have a population of about 10,000 to 12,000 in 1710. It grew rapidly in the 18th century, especially after the victory at Plassey in 1757. The number of its inhabitants in 1822, was, however, not estimated at much higher than 200,000. It is therefore, likely that its population was about 100,000 in 1750. The estimates regarding Bombay City have been set out earlier.

#### 4. *Trade Routes and Trading Regions*

We may next refer briefly to trade routes and the trading regions. Previous to the war of 1756, Pondicherry was perhaps the finest city in India." Rennel, *Memoir of a Map of Hindoostan*, 1788, pp. 198-9.

It is necessary to emphasize in this context the comparative lack of stability in the total politico-economic situation which makes it impossible to give a description that would hold good for any length of time.

The possibilities of large changes in fortunes of cities and trades may be illustrated by reference to the situation of Sind in the middle of the 18th century. Right up to the end of the 17th century we find all European travellers writing about the great volume of trade and shipping of the city of Tatta and it is obvious that in the 17th century Tatta was a centre not only of considerable entreport trade but also of a large artisan industry. It is true that even at this time Sind trade was important not only for itself but also as one of the channels for the trade with central Asia. The agencies and connecting links on the Indian side of this trade were in West Punjab and North Sind. Multan in the Punjab and the three towns of Bukkur, Sukkur and Rohree (in Sind) were the most important of such centres in the 17th century. The first half of the 18th century, because of disturbed political conditions and other reasons, brought about a large change. Tatta declined fairly rapidly and the connecting links in North Sind were no longer the three cities mentioned above. Shikarpur rises into prominence after 1750 and takes their place. The political changes also brought about a great diminution in the importance of Sind trade in itself and this diminution lasted for a long time. For we find Burnes emphatically recording in 1835 that what was important was not trade on the Indus but trade by the Indus.<sup>10</sup> Through all the unsettled times and through the period of declining economic activity in Sind the part played by Sind Hindu merchants in Central Asian trade remained important and Shikarpur after 1750 was an important centre not so much of commerce as of finance connected with trade "from Astrakhan to Calcutta."<sup>11</sup>

The main trade artery of Sind was of course the Indus, used for the trade not only with Kabul and Kandhar but also for the trade with

<sup>10</sup> J. Burnes, *Narrative of a visit to court of Shinde*, 1839. (With a sketch of the History of Cutch and an appendix.) Appendix No. II, pp. 18-19 (Practical Notes on the trade to the Indus and the navigation of that river, by Sir Alexander Burnes). "It appears that there is much error abroad regarding the trade on the Indus. Enterprise will doubtless do much to create and improve commerce; but, for the present, it is a trade by the Indus and not on the Indus. It is, in fact, a transit trade to western and central Asia; a line, however, which ought to supersede that by Sonmeeanee to Candahar, and by Bownugger to Pallee and Upper India. If the mercantile community hope for any increased consumption of British goods in *Sinde* itself, they will be disappointed; the time may come, but at present, the bulk of the people are miserably poor, and there are really no purchasers."

<sup>11</sup> *Ibid.* Appendix III on the Commerce of Shikarpur and Upper Sind, by Sir Alexander Burnes, p. 23.

the Punjab and North India. However, there were also important land routes through which a certain amount of trade always flowed. There was the route from Hyderabad to Agra via Pallee and Ajmer and also that connecting Agra and Ajmer with cities of Sind via Jaisalmer.

The first half of the 18th century was a greatly disturbed period for most of the Punjab. The invasions from across the border, the rise of Sikhs, their attempted persecution and their ultimate triumph were important happenings which kept the Punjab in a highly unsettled state for many decades. The result for trade, especially through trade, was very bad. Because of frequent interruptions and the dangers involved, traders tried to avoid the established Punjab routes and trade was said to be diverted by routes either farther north through mountainous country or further south through Rajasthan. In the undisturbed times Lahore had been recognised always as an important focus of international trade from which, through Sirhind, trade routes came down to Delhi or Agra or were led through Sahranpur to Lucknow and Oude.

The political disturbances in which Lahore was involved during the first half of the 18th century were also more or less largely experienced by Delhi itself. Agra was relatively free of these disturbances and continued to enjoy the advantage of its geographical position. Agra was the converging point of routes from the West (Sind and Rajaputana), the North (Delhi and the Punjab), the East (Oude, Bihar and Bengal) and the South (Central India and Malwa). Agra was also a point up to which there was possibility of transporting goods by water from the East during at least some months in the year. It thus constituted an important terminal point of internal water transport in the valleys of the Ganges and Jamna.

Bengal, Bihar and Oude may be considered as forming together at this time essentially one trading area, the main connecting link of this area being the vital internal water transportation of the Ganges and its tributaries. This formed a very large trading area and by far the most active region at this time. Because of the facility of water transport the volume of internal trade was large and on account of the same factor seaborne trade or foreign trade could affect substantial sections of the internal economy also. It was supposed that this inland navigation gave constant employment to 30,000 boatmen<sup>12</sup> during the latter half of the 18th century.

We have no detailed information relating to internal trade such as could give us an idea of the volume of trade or its growth. However, data regarding external trade may furnish some indications in this

<sup>12</sup> J. Rennel, *Memoirs of A Map of Hindoostan*, p. 255.



regard. It has been estimated that during the first half of the eighteenth century imports into Great Britain from India increased more than twofold, in both value and quantity. The rate of growth was particularly rapid in the opening decades; after 1735, it slowed down and, in particular years, even suffered a setback on account of disturbed political conditions in parts of the country. Among the Indian imports into Great Britain, raw silk, silk goods and saltpetre were mainly from East India and an important part of the cloth exports were also drawn from this region. All these showed large and sustained growth during the half century. The rate of increase of foreign imports into India was not larger than that of exports out of India and the imports of bullion into India for financing purchases of local production seem to have increased *pari passu* with the increase in the volume of trade.<sup>13</sup> These developments must have had important effects on the internal economy. And both on account of its large share and its comparatively greater internal integration, the results in relation to the economy of the Bengal and Bihar region must have been particularly notable. Contemporary records of the striking development of resources of Indian bankers in Bihar and Bengal and references to rising prices of commodities might perhaps be evidences of the prosperity and the increasing tempo of economic activity following upon the larger commodity exports and bullion imports. It has been assumed that Bengal had at this time a large number of small towns like Malda, Rangpur, Cossimbazar with a numerous body of artisans, particularly cotton and silk weavers. This was in addition to the large cities like Dacca, Murshidabad and the growing port town of Calcutta. Reference has been made above to the beginnings and increase of raw cotton imports into Bengal from other parts of India, which were obviously a consequence of the pressure of increased demand for cloth. In 1750, the imports into Bengal were mainly of Gujarat cotton brought by sea from Surat.

The exports within India from the Bengal-Bihar area were chiefly high grade cotton and silk cloth, raw silk and salt. Raw silk was sent partly by sea to Surat (i.e. Gujarat) and partly through Mirzapur and Benares to markets further to the North and West. Bengal salt went to Bihar and Assam. The coasting trade, chiefly in European hands, was in grain, pulse, sugar, ghee, spices, etc. in addition to the main items indicated above.

Gujarat has been since ancient times perhaps the most urbanised region of India, with larger and more continuous contacts with the outside world than any other. It was very conveniently situated for

<sup>13</sup> Balkrishna, *Commercial Relations between India and England (1601-1757)*, Chapters VII and VIII.

transport of goods by sea and had a long tradition of seafaring trade. In 1750, Surat was still the most important port on the west coast of India north of Goa. This position it had held since the decline of Cambay in the 16th century. With a relatively large urban and artisan population the produce of the artisan industry of Gujarat was very considerable. Notable was its high production of cotton cloth for which there continued to be an extremely active demand from abroad. At the same time it was agriculturally a rich region producing considerable quantities, particularly, of cotton and indigo. The result of a comparatively large urban population and comparatively enhanced emphasis on production of non-food agricultural crops was the need to import food articles. Gujarat had an active import trade in food-grains and other food articles like coconut, ghee (clarified butter) and spices, most supplies being obtained through coastal trade either from the west coast south of Goa or from Saurashtra and Sind ports.

The main land routes from Surat to the north (i.e. Agra and Delhi) were first that via the valley of the Tapti and Burhanpur through Malwa, and the other via Broach and Ahmedabad through Rajasthan. The importance and volume of land trade was always fluctuating. In the 18th century the main variable factor was internal conditions, particularly the political situation along trade routes. Malwa and Central India were greatly disturbed in particular years before 1750 and the importance of the Burhanpur route, therefore, distinctly diminished through the 18th century. The position once held by Ahmedabad as a centre of entreport trade and its role of distributor of imports in the entire region served by the Gujarat ports had declined somewhat with the decline in importance of Cambay. However, Ahmedabad continued to be important not only as the political capital of Gujarat but also as a very large centre of artisan industry, particularly cotton and silk weaving, and as the centre of a rich agricultural tract noted particularly for indigo and cotton.

As a result of the rise of the Maratha power, conditions in the Maratha home country (i.e., West Maharashtra) Berar and Nagpur had been stabilised. On the other hand Maratha claims on revenue in areas which was not under their permanent occupation led to continuous expeditions and wars which proved unsettling to economic life. These were most evident in Malwa and Central India and in Chattisgad, Orissa and the borders of Bengal and Bihar. In the absence of reliable data it is difficult to assess the extent of such disturbances, the period over which they lasted and the nature of the changes brought about. For example, while it appears that the route from Surat via Burhanpur declined in importance to some extent, that via Ahmedabad does not seem to have suffered equally.

Except for the rise of Indore as a new centre, no special feature of the trading situation appears noteworthy in Malwa and Central India. Rajasthan as a whole seems to have been less affected by disturbed conditions than Malwa and Central India. The older trading centres of Rajasthan (such as Pali, Jaisalmer, Jodhpur and Ajmer) seem to have retained all their early importance and rise and prosperity of Jaipur under Jai Singh in the first half of the 18th century seems indicative of comparatively settled conditions. This might have been in part the result of diversion of some through trade to the Rajaputana route because of the disturbance in the Punjab.

Maharashtra, during the 18th century experienced some respite from the extremely troubled times of the 17th century. This was a period of comparative peace and prosperity for this region of India. Within the region two comparatively new cities (Poona and Nagpur) rose to considerable importance in the decades immediately after 1750. Nagpur, in the East of Maharashtra, developed because of its central position into an important trading centre, being connected with routes in all directions except the Southeast which was largely tribal country. Nagpur became the centre of trade in raw cotton and also rose rapidly to importance as a weaving centre. Poona in the West grew in size and activity chiefly as a very influential political capital. Poona through its political relations became for some time an important centre of financial transactions, though not of trade or industry.

The Maharashtra region had comparatively little share in external commerce. Its coastal strip (the Konkan) was cut off from the rest by a mountain barrier and the main region was thus landlocked. The coastal strip was narrow and infertile and was not noted for any special agricultural or industrial products. The Konkan contained a number of important but small ports, such as Chaul, Dabhol and Rajapur, but they were important only for the coasting trade and were chiefly ports of call and not important originating centres of trade such as Surat or Goa, which lay respectively at the northern and southern end of the Konkan.

Hyderabad was at this time an important centrally situated place which was also the capital of a powerful and comparatively stable kingdom. Its trade was largely oriented towards Madras and Masalipatam. The Godavari River was an important channel of trade for a part of this Hyderabad territory and important supplies such as of timber came down to the Godavari from the region surrounding its banks. The region (called by Europeans at this time the northern Circars) comprising in the main the deltas of the Godavari and Krishna, had a long coast line and a comparatively well developed system of internal water transport. Coastal trade and the operations of Euro-

pean traders were, therefore, active in this region. It vied with Bengal and Gujarat in the reputation of the products of its looms and supplied a large share of the increasing volume of exports of cloth. This, as in Bengal, necessitated imports of raw cotton into the region which are much noticed in the British records towards the end of the century.

The operations of modern Europeans in India began at the extreme South of the Indian Peninsula and thus the southernmost portions on both coasts had numerous points at which Europeans had stationed themselves. This was also an area in which (during the 17th and early 18th centuries) the Europeans were not confronted with strong Indian powers. The most important European settlements were Pondicherry and Madras. Political conditions in the region were also unsettled and just before 1750 large parts of it had been involved in wars in which both the English and the French participated. The unsettled conditions in the South persisted almost till 1800, leading to a general decline in trading and other economic activities. Madras because of its protected position was an important centre in the coasting trade. It was also important centre of external commerce, especially in relation to the countries further to the east. The chief articles entering into the trade on the Coromandel coast, in which Madras held a central position, were grains, cloth, cotton, indigo and pepper.

Bangalore was the largest and most active centre of internal trade south of Hyderabad and in the region south of Madras, Tanjore was important. The Malabar coast containing such important ports as Cochin, Calicut and Mangalore had been extremely active in foreign commerce since the advent of the Portuguese and the Dutch. However, unsettled conditions affected this coast also, and in the latter half of the 18th century economic activity was at a low ebb. There was considerable coastal trade between Surat, the Konkan ports and the Malabar coast, the imports into Malabar being chiefly grains, pulses and sugar, and the exports teak wood and coconut.

##### 5. *The Business Communities and their Regional Distribution*

In describing business activity in India in 1750 it is necessary to pay attention to the castes and communities engaged in it. The need arises out of characteristics of the traditional social structure of India. Indian society was divided into a number of sections each of which highly stratified. The society was divided, in the first instance, into regions and into religious groups such as Hindus, Muslims, etc. There was little mobility between these and no easy passage from one to another, except in some cases by conversion. Within each section, particularly among the Hindus, there were further stratified divisions into caste and sub-caste groups which were fairly rigidly separated

from each other. As a result, the ordinary practice of following the family occupation was greatly reinforced and there was little mobility between one occupation and another. In this situation, the history of rise and development of modern business becomes, to a large extent, the history of the activities of members of certain groups.

We may now briefly note the chief communities engaged in the more important aspects of business in India in 1750. In this account, attention is confined to trading and finance, little attention being paid to artisan or handicraft industry. The number of artisans, and of artisan centres, the variety of artisan industry and the great diversity of caste groups engaged in them from region to region make it impossible to pay attention (in such a general survey as this) to the artisan industry situation. Moreover, as has been suggested earlier, large trade and finance are the important fields from the point of view of our study. Accumulation of capital, innovation, etc. were much more possible and were likely to be more evidenced among the trading and financing classes rather than among the large numbers of scattered tradition-bound and relatively poor artisans.

In describing the situation regarding the trading and financing classes, it is necessary to point to an important distinction between the northwest, (i.e. Punjab and Sind) and the other parts of India. In the northwest, the bulk of the population, especially the rural population, had by 1750 become Muslim. The Hindus were important only in the towns, though they controlled trade and finance even in rural areas. The rigid observance of caste divisions and rules was not, for a variety of reasons, as marked in these areas as in the others. The chief difference that this made was in the occupational specialisation among the Hindus. In the context of our discussion, this is best brought out by the case of the Khatri of Punjab. This was a vigorous urban Hindu community engaged notably in trading activity not only in Punjab but also in Afghanistan, Central Asia, etc. The Khatri took a prominent part also in liberal professional activities and to the extent that the Muslim rulers employed any Hindus as administrators, etc. the Khatri contributed substantially. This contrasts with the situation obtaining in, for example, the U.P. and Bihar, where the division of activities as between Brahmins, Kayasthas and Banias was fairly rigid.

The Khatri were the most important of the substantial traders and financiers of the Punjab. Their place in Sind was filled by the Lohanas, though the administrative opportunities sometimes available to the Khatri seem not to have been open to the Lohanas under Muslim rule in Sind. It is interesting, however, to observe that in the 18th century, Lohanas took an important part in the politics and administration of the neighbouring Hindu kingdom of Kutch. The Lohanas

seem also to have their origin in western Punjab, but they moved to the west and south chiefly through Sind and later to Kutch and still later to Saurashtra and Bombay. The related community of the Bhatias, with a similar origin and background, preceded the Lohanas in Bombay. The Khattris on the other hand moved to the east and then to the south. Both the Khattris and Lohanas continued to play an important part at the same time in the Afghan and Central Asian trade. The Lohana centre of Shikarpur was rising into importance during the latter half of the 18th century, and the Lohanas continued to be important as financiers and as traders abroad through subsequent periods.

In the Ganges valley, we are confronted with a somewhat peculiar situation. It is not possible to isolate in this area any dominant regional trading community or communities.<sup>14</sup> The importance of the trading communities of Rajasthan (the Vaishnava and Jain Banias from that region) is very great in all recent Indian history. However, because of the comparative neglect of the socio-economic history of India, no properly organised account of the emigration of these communities is available. It would appear that in 1750 the main trading communities in U.P. and Bihar were emigrant Banias from Rajasthan. From the evidence of locational origin, Russel and Hiralal in their discussion of the Banias of Central Provinces argue that the important Bania groups appear to be of Rajpur stock.<sup>15</sup> The Bania communities, discussed by Russel and Hiralal (such as Aggarwal, Oswals, Meshris, etc.) were all trading communities also of U.P. and Bihar. It is possible that the migration of these, especially into U.P. and Central India, took place at an early period. However, their migration to regions other than the U.P. and Central India cannot have taken place much earlier than the 17th century<sup>16</sup> and most probably, occurred in substantial numbers only in the 18th century. This migration took place, in the main, to the East and to the South. To the North and the West, there were predominantly Muslim areas in which important Hindu trading communities with capital resources and high skill already

<sup>14</sup> Bhattacharya lists Banias from Bengal and Orissa, Banias from Gujarat, the trading castes of southern India and the mercantile castes of the Telugu country and the Banias of Northern India. Among the Banias of Northern India, he notes that the richest and the most enterprising claim Rajaputana and the adjoining tracts as their original home but are to be found in every part of upper India, from the Sutlej to the Brahmaputra. J. N. Bhattacharya, *Hindu Castes and Sects*, 1896, p. 204.

<sup>15</sup> Russel and Hiralal, *Tribes and Castes of Central Provinces*, Vol. II, p. 116.

<sup>16</sup> In the family history of the House of Jagatseths, which belonged to this group of communities, the arrival of the founder of the House in Patna, is put at the end of the 17th century.

operated. To the southwest (in Gujarat and Saurashtra) also there already existed highly organised expert business communities.

Among the Indian business communities noticed by European travellers in the 17th century, there is little specific reference to Banias from Rajasthan. Maharashtra, after Bihar and Central India, may have received these emigrants earliest, but in this region also there is little evidence of their presence before the 18th century. The dominance of the Gujarati Banias in Peshwa times in Poona and the evidence of the occupational and locational distribution in the Poona city ward-list of 1820 suggest that the arrival of Marawadis (Rajasthan Banias) in any appreciable numbers in Poona city would have taken place only in the last quarter of the 18th century. The Bania communities from Rajasthan (later generally designated under the term Marwaris) may be said to have been the important business elements chiefly in U.P. and Bihar and Central India in 1750.

Sikhs do not form a single community in the sense in which Hindu castes are separate communities. Sikhs have to be treated for most purposes as a separate section of the society having a structure somewhat similar to that of the Hindus. Moreover, an important feature that distinguished the Sikhs from Hindus was that the Sikhs were continuously receiving new converts into their ranks. In the context of our discussion the important point would thus be not whether a person was a Hindu or Sikh but whether he belonged to a trading community. In the earlier period of Sikhism, for example, the Khatri played a very important part and before Sikhism became a militant religion, Sikhs were reported to be important in trade, both internal and external. It is natural to assume that this was due to elements such as the Khatri among the Sikhs. The presence of Oomichand, described as a Sikh, in Calcutta has to be interpreted in the light of this.

The position in Bengal is somewhat peculiar. There were in Bengal communities like the Subarna baniks, who traditionally specialised in trade and business and who corresponded to the Banias in other regions. They do not, however, appear to have been important in Bengal banking or trade in 1750. In Bengal, in 1750, the situation appears already influenced in part by the advent of the British and other Europeans. An important indicator of this was the rise to importance of some elements in Indian society through association with Europeans. Here it is necessary to distinguish between relations of foreigners with Indians on the basis of businessmen to businessmen and relations of foreigners with Indians who acted agents of the foreigners. There is no reason, of course, why both these types of activities might not be undertaken by the same set of people. Indian businessmen, in a small way, could offer to act as agents of foreign business and thus secure

their own advance. This seems to have happened, for example, in Gujarat cities. While it would be possible for Indian communities already engaged in business to enter into transaction with foreigners, both on the basis of businessman to businessman and as agents, those Indian communities who had no entry to business could only act as agents of the foreigners, at least in the first instance. The entry of elements who might be called professional and administrative into business activity may thus have come through their acting as agents of the foreigners. In Bengal, from the foundation of Calcutta onwards, the Englishmen sought chiefly administrative assistants and business agents. As a result, communities such as Brahmins and Kayasthas from Bengal who had no previous footing in business make their entry into it as the assistants and agents of British businessmen.

In South India, the Komatis of Andhra Pradesh and Chettis of the Tamil country were the most important trading communities. They pervaded the whole of their native regions and were also found operating in the neighbouring areas. In Karnatak the most prominent trading community (noted for example, by Buchanan) is that of the Pancham Bunjigars. On the Kerala coast there were no important elements among indigenous Hindu castes who were engaged in trade. Moplas, who were Muslims of mixed Arab and local descent, were important in trading especially in internal trade. To some extent, the local Syrian Christians, who had been encouraged by the Portuguese, engaged in trading activities also. There was, moreover, the localised but highly important community of the Cochin Jews.

In the north of the Peninsula, Maharashtra provides an interesting example of a commercially retarded region. There was no important community, Hindu or other, which was indigenous to this region, specialising in commerce and trade. To some extent, particularly in the east, the Yajurvedi Brahmins took considerable part in money-lending and indigenous banking. It is also recorded that in the early part of the 18th century, with the increasing migration of Chitpavan Brahmins to the Desh tract, a number of these were also engaged in money-lending and indigenous banking. Trading activities in South Konkan, were associated with Saraswat Brahmins. This fact itself (that Brahmin subcastes should appear prominently in some activities in the trading and banking field) is indicative of the lack of the Bania element in the indigenous caste structure. Whatever the reasons for this might be, the results were clear. In Bombay, the trading elements were all drawn not from Konkan itself, but from Surat and South Gujarat and from Saurashtra and Kutch. The same thing happened with the growth of Poona and Nagpur during the course of the 18th century. In Poona, the earliest migrant elements appear to have been Gujarati Baniyas and Bohras, and it is likely that both of these came



to Poona through Burhanpur and Aurangabad. In Nagpur, on the other hand, the trading immigrants were the Bania castes from Rajasthan, which had spread into central and north India. With the rise of cotton exports from the Berar-Nagpur tract, it was these elements that came to control this trade.

Gujarat and Saurashtra formed perhaps the most urbanised and developed tract in the whole of India with a continuous record lasting over centuries of foreign trade. This region had a highly developed Bania community, both Hindu and Jain. It had also large Muslim trading communities. It is important to distinguish these Gujarat Muslim trading communities from Muslims, traders and others, from other areas. It must be noted that the Muslim trading communities hailing from Saurashtra and Kutch (like Khojas and Kacchi Memons) were mostly converts from the important Lohana community and Bohras who were converts chiefly from the Gujarat trading and artisan communities. These Muslim communities continued to have special organisational peculiarities of their own and were sharply marked off from the rest of the Muslims. They also continued their traditional commercial activities.

In Gujarat, apart from Hindu and Jain Banias and the Muslim trading communities, it is necessary to note the emergence of the Parsis. This seems to have taken place chiefly in connection with the activities of the European traders at Surat and Bombay. From early times, Parsis established connections as brokers with European traders. A remarkable feature to be noted about the Parsis is that their traditional occupations were not connected with trading or finance. In the accounts of the 17th century travellers, they are noticed chiefly as artisans, carpenters, weavers, etc. Their prominence in Bombay was also established, in the first instance, through their ship-building activity. Though they later became a dominant trading and financing community like other Gujarat communities, their original artisan background is an important feature that deserves notice.

Excepting the Europeans, the only important non-Indian trading element to be noted is that of the Armenians. They seem to have been important already in the 17th century. Pelasert notices them in the indigo trade at Bayana and Ovington records that they are great merchants at Surat. In the 18th century, they seem to have been important everywhere. Manucci mentions them as trading at Sironj and Burhanpur. They were among the first settlers at Calcutta and at Madras (because of the special situation in the Philippine) held almost a monopoly of the trade with Manila in the first half of the 18th century. They are reported as active along the Malabar coast and at Bombay.

We may summarise this account with an indication of the regional spread of the activities of the particular communities. For this pur-

pose, the northwest (i.e. Sind, Rajasthan), the Delhi and Agra area, and the Punjab, constituted one region. The Khattris and the Lohanas were dominant in these internally and also took a very important part in the trading activities in regions beyond the frontiers of India, such as Afghanistan and Central Asia. The Khattris appear to have been more or less confined to this region. A small number of them would, however, as a natural extension of the trade in their region, operate eastward at, say Patna, Murshidabad and Calcutta. The Lohanas, apart from participating in the trans-frontier trade, would also, to some extent, go beyond the sea following their connections in South Sind and Kutch. Their banking houses and correspondents are noticed as far east as Calcutta, but they are not noted as important in any special sections of maritime trade.

The Gujarat and Saurashtra trading communities, Hindu and Muslim, apart from trading in their own regions, participated very actively in all maritime trade, both to the west with the Persian Gulf, Arabia and Africa and to the south and southeast along the coast of India to Malaya, Indonesia, etc. They were important in the trade with Malabar and before the advent of the Europeans had played a very important part in the trade with Southeast Asia. The conversion of Indonesia to Islam is attributed to Muslim traders from Gujarat. Though the Gujarat communities do not appear to have been important in trading on the Coromandel coast, they are noticed prominently in the trade in relation to raw cotton, raw silk and cotton and silk piece goods of Bengal and Bihar.

The trading communities of Malabar participated with those of Gujarat in Southeast Asia's trading, including the trade with Burma. The Chettis of the Tamil country and Andhra Komatis apparently took some share in the Burma and Malaya trade.

The trade of Bengal and Bihar, as has been already pointed out, attracted trading communities from all regions. Barring trading communities of the South, all other indigenous and foreign communities are mentioned in travellers' accounts relating to this region. By 1750 Banias from Rajasthan were present in important trading centres in Bengal. However, they were not reported at this stage, as being prominent in maritime or foreign trade. Gujaratis (both Hindus and Muslims), Punjabis, Armenians are also all prominent. Bengali names in business are relatively unimportant and where they occur are mostly of the rising professional agent class and not those from indigenous trading elements.

## 6. *Social Position of Businessmen*

For a proper appreciation of the evolution of modern business in India, it is necessary to understand the position held in Indian Society

by merchants and craftsmen. In the theoretic conceptual framework of Hindu Society, traders and artisans (together with cultivators) were included in the third category of caste Hindus, the Vaishyas. However, this category had long been broken up in a series of castes and sub-castes and the term Vaishya (or any of its derivatives) was not applied in the 16th century and after to any caste following agriculture. The terms, when used, came to be restricted to urban castes, particularly those engaged in trade and commerce. In the urban complex itself castes following trading and allied activities tended to be sharply distinguished from artisans and handicraftsmen. The designation of individual castes among artisans, etc. usually adopted the basis of industrial activity, so that weavers, dyers, goldsmiths formed separate castes with the occupational names. The merchant-trader group on the other hand was denoted by a generic term such as Bania. The formation of sub-castes among these tended to be on the basis of place of origin or other non-occupational characteristic rather than on that of type of economic activity or the particular commodity traded in.

The general trader-merchant class held a high socio-economic position in Indian urban life. In the caste hierarchy, there were theoretically two caste groups which were higher (the Brahmins and Kshatriyas), but neither of these formed fully integral parts of urban society. The Brahmins and the Kshatriyas were directly, so to say, neither urban nor rural. This was because their traditional caste occupations were not integrated with either the rural or the urban economy. They were the generalised priestly, military, ruling and administrative classes, being found in both town and country, but having no integrated connection with the day-to-day economic life of either town or country. In the socio-economic life of towns the trader-financiers hold, in every way, a commanding position.

A remarkable testimony to the respect given and value attached to the wealthier merchant is contained in an early 18th century Marathi treatise on Statecraft, which devotes a special section to traders and bankers, including foreign traders. It lays down that the prosperity of a kingdom depends on the trader-bankers. They make available non-indigenous commodities and are the source of finance in different times. The state profits from protecting them and, therefore, they should be honourably treated.<sup>17</sup> Thus even though, because of the caste

<sup>17</sup> The following is a free translation of the extract from the '*Adnyapatra*' (p. 27), an old Marathi treatise on statecraft: "The Savkars are ornaments of royalty and of the kingdom. They make the realm prosperous. Unobtainable commodities enter the territory. The kingdom becomes wealthy. When contingencies arise they provide loans. By their aid calamities are averted. There is much profit in extending protection to them. For this they should be accorded

structure, the merchant-trader could not ordinarily move into positions of military or administration power, his ranking and influence in Indian society as a whole was far from lowly and in urban society he usually held a dominant position.

This does not apply to the artisan classes. Artisans however skilled were devoted to a single specialised productive activity which always involved some element of manual work. Because of this or other reasons they held a position distinctly lower than that of traders in caste hierarchy.<sup>18</sup> Handicraft units were limited by a variety of considerations in relation to growth in size of units and, therefore, in total economic strength; the handicraftsman, however skilled and well-to-do, was confined to his occupation and could not rise to be a general merchant or trader. On the contrary, almost as a result of the same immobility, the handicraftsman was inevitably dependent on the merchant for finance and merchandising. This resulted in a position of permanent economic subordination for the artisan classes.

In Hindu society there was no mobility between the merchant-trader classes and the military, priestly and ruling-administrative classes. This immobility, induced and maintained by the caste structure of society, had very important consequences. Not only was there immobility in the sense that members of and priestly or military castes did not intermarry with those of the trader castes, but also it was only very rarely that appointees to ministerial or high administrative positions were drawn from the trading classes. Posts like those of provincial Governor were not held by them; nor had they any access to military or priestly ranks. Even under Muslim rule, Hindus holding high positions in these professions, were usually not drawn from the trading and the financier castes. Under Muslim rule most high administrative and military positions, except those held hereditarily by descendants of Hindu rulers or nobles, were confined to Muslims.<sup>19</sup> All this had the effect, on the one hand, of leaving trader-financier castes

status. They should be protected from arbitrary acts and insults. Shops and markets should be established in various localities of the city for elephants, horses, silk clothes, cloth of gold, wool, jewellery, weapons, etc. so that they can conduct trade. Leading merchants should be encouraged to reside in the aristocratic quarter."

<sup>18</sup> Pelasert writing at the beginning of the 17th century, includes goldsmiths, dyers, embroiderers, carpet-makers, cotton or silk-weavers, blacksmiths, copper smiths, tailors, masons, builders, stone-cutters, "a hundred crafts in all," among workmen. These he describes as being very poor. He adds, "The shopkeeper is, held in greater respect than the workman and some of them are even well-to-do". Pelasert, *op. cit.*, pp. 60 and 63.

<sup>19</sup> The Khatri of the Punjab constitute a partial exception to this. It would also appear that Rajasthan banias were to some extent employed as ministers in the courts in Rajasthan.

completely devoted to their occupational activities and, on the other hand, of making them always dependent to a greater or lesser extent on the continued favour of the court and the big administrators.

The merchant was held in high regard in Islamic society and was not inferior to any other class. Neither was there any barrier, such as that raised by Hindu caste society, between merchandising and the military and administrative pursuits in Islam. There was, therefore, more likelihood of mobility between the ranks of merchants, military men and administrators in Islamic society. However, it would appear that in India in the 17th and 18th centuries this theoretical possibility led to no important practical results and no important cases were recorded of Muslim traders rising to military or administrative positions.

Also, among Muslims the caste barrier between artisans and traders would not operate. Therefore, amongst them there might be cases of persons rising from artisan elements into merchandising and trading. However, it has to be remembered that in very few parts of India was there established a complete and homogeneous Islamic society. In a number of regions (for example, Sind) the bulk of the peasants, artisans, etc. as well as of rulers were Muslims while the traders and merchants were all Hindus. On the other hand, in other regions where Muslim trading classes operated, the artisan classes might be Hindus. Therefore, even in this case the dominant pattern in society was that flowing out of the Hindu structure. This is apart from the consideration that in a number of instances converts to Islam kept up in practice the restrictions on marriage arising out of their original caste membership.

### *7. Trade and Handicraft Organizations*

There is little contemporary information on the early constitution of Indian trade and handicraft organisations. The main sources regarding the organisation of guilds and trade associations are the Gazetteers and other publications describing conditions of industry and trade during, for the most part, the latter half of the 19th century. Two points have to be noted relating to this material: first, that ordinarily it does little more than note the existence currently or in the recent past of guilds, etc.; second that the detailed descriptions which are available refer almost entirely to conditions in Gujarat cities. A number of hypotheses may be put forward to explain this phenomenon. In the first instance, there might be some regions in which such organisations did not evolve. This might have happened especially in areas where there was a Muslim majority and Muslim Kings ruled but in which trade was in the hands of Hindus. This might also be the case in commercially retarded regions like Maharashtra. In

some regions destruction of cities or their rapid decay may have led to collapse of the older organizations; this might happen in cities like Delhi or Agra or even in Murshidabad and Dacca. There might again be regions in which, either because of the overwhelming strength of caste organizations or because business was highly confined to some communities, there might be little distinction between caste and business organizations. This might have been the case largely in the South. Buchanan's careful descriptions of the organizations of castes like Banigars, Panchalas and Komatigas at Bangalore give no indication of trade or industry organisations transcending the caste organizations.<sup>20</sup> In Gujarat alone all factors appear to have been favourable for elaboration of forms and for their survival. The Gujarat Gazeteers contain some description of the guilds of artisans also. The generally inferior economic position of the artisan castes is made clear by these accounts.

In view of this partial availability of material, we begin with a description of the position as it appeared in Gujarat in the latter half of the 19th century. The essentials are presented in the following quotations: "In every town not only among the merchants but among the goldsmiths, the carpenters, the metal workers, the masons, the dyers, the potters, the oil-pressers, and almost all other craftsmen there is a guild prescribing trade rules and settling trade disputes under the guidance of its aldermen. The growth of these associations was made all the easier if all persons following the same pursuit belonged to the same caste. Even without this bond the faculty for combination so strong in the Natives of India would enable them to unite without difficulty for the promotion of their real or supposed interests. The corporate authority was further strengthened under native rule by the policy of the officers of Government to whom the system supplied a convenient agency for distributing and enforcing their irregular exactions. 'In former days,' says an old Viramgam dyer, 'if a Government officer wanted cloth dyed, he sent it to our aldermen who got the work done and either paid all expenses out of the common fund, or levied a special contribution for the purpose from the whole craft. In return the Government was always ready to give ear to a complaint against any one, who, while carrying on our trade refused to share in the joint burdens or obey the head-man's order. Any one who misbehaved in this way would probably have found himself called into court and, until he yielded or left the town, saddled with the whole weight of the next and every further requisition.' Even under British rule trade organizations were for a time utilized in collecting *kasab veras* or trade cesses. These imposed in

<sup>20</sup> F. Buchanan, Vol. I, p. 236.

lump sums on each craft or calling were realized by the aldermen whose authority it was, in consequence, to the interest of Government."<sup>21</sup> Theoretically the trade council is distinct from the caste council; for example, in Ahmedabad there are four castes of carpenters and therefore four assemblies for caste purposes, but only one carpenters' mahajan. So the silk, mashru, weavers mahajan in the same city contains both Kanabis and Vanias. Many more instances might be cited. It is important to note this because, especially in the smaller towns, a particular trade and the rules and penalties of both are enacted and enforced indiscriminately by the same body. Even in the mahajans of mixed castes the line between the secular and the religious is, as might be expected, not scrupulously observed. For example; not long ago a Visashrimali Vania of Ahmedabad, who offended his caste by marrying a widow was expelled from the cloth dealers' mahajan to whom he belonged and was in consequence obliged to close his shop and leave the town.<sup>22</sup> "An association among the higher classes is termed in the vernacular a mahajan. Among the lower classes, more especially if it happens to be coextensive with caste, it is called a panchayat. Both words are in this account translated 'trade guild' not because the expression accurately conveys their meaning but because it is on the whole the most convenient that could be chosen."<sup>23</sup>

In applying these statements to other parts of India some reservations may be made. In the first instance the word mahajan is not of common occurrence elsewhere and the word Panchayat is generally used for organizations of all castes, high or low, and the distinction between a caste or social organization and a trade or economic organization appears even less marked elsewhere than in Gujarat. The prevalence of organizations prescribing trade rules and settling trade disputes also appeared much less universal among artisan and traders in other parts of India than in Gujarat. In most other parts of India, trade organizations embracing more than one caste appear to have been uncommon in the 18th century and the social and economic functions were merged in and managed by the caste unit. For example, in Poona during the latter half of the 18th century, there was considerable immigration of artisans like cobblers, potters, carpenters, etc. from regions outside Maharashtra. The local artisans in these occupations continued also to ply their crafts. The immigrants came and established themselves chiefly because they either specialised in certain products which members of indigenous castes did not ordinarily produce or because they brought in greater skill. There is no evidence,

<sup>21</sup> *Ahmedabad Gazetteer*, 1879, Vol. IV, p. 107.

<sup>22</sup> *Ibid.*, p. 107, footnote 2.

<sup>23</sup> *Ibid.*, p. 106, footnote 2.

contemporary or later, to indicate that the two caste groups engaged in the same craft were brought under one craft or trade association. Description of the elaborate organization of the Benares Silk Weavers' Guild as it existed in the first decade of the 20th century also emphasizes the practice of restricting the organization to a single caste or community. The description gathers special significance from the fact that these Benaras weavers were Muslims.<sup>24</sup>

The situation regarding the organization among merchants and financiers should be different from those of artisans. Those plying a craft in a centre would ordinarily belong to one caste or community and there might be little need or occasion for craftsmen of different places and belonging to different castes to form an economic organization among themselves. The position of the trader-merchant would always be different from that of the craftsman. As indicated above, the castes among the trader-merchant group were not based on particular specialised economic activity. Hence at all times the trader merchant group in the larger centres would include members of more than one caste or community. The long distances over which trader merchants often travelled and the existence of correspondents or branches of big indigenous financial houses in all main trading centres made for a somewhat mixed caste composition of the merchant group in central locations. Thus in the case of merchant traders congregated in large centres of trade the problem of a group organisation for economic purposes would necessarily arise.

In the circumstances, it is remarkable that we should not have for the 18th or 19th centuries any descriptions of traders' associations, excepting those from the cities of Gujarat. This may be explained, in part, by what appears to have been the progress of disorganisation. Evidence from accounts, inscriptions etc. has been interpreted to indicate that in the greater part of South India there continued to exist in the 15th century a traders' association with a jurisdiction over large areas and with membership spread over not only different castes but also different religions.<sup>25</sup> Nothing in the evidence of contemporary or later writers, however, suggests such organizations, embracing many castes in one, in the South India of the 18th century. This would indicate that in the course of the 16th and the 17th centuries common trade organizations tended to disappear leaving the field entirely to exclusive caste organizations. All later evidence points to the existence of organizations of the federal type among caste organizations and their wide coverage especially among the trading castes. It is likely that the political unsettlement of the South following on the

<sup>24</sup> "Trade Guilds in India," *Modern Review*, March 1911.

<sup>25</sup> Appadorai A., *Economic Conditions in Southern India, 1000-1500 A.D.*, Chapter III.



break-up of the Vijayanagar Empire and the coming of the Portuguese had something to do with this setback to the organisation of traders. Attention may also be drawn to the chronic disputes between the Right-hand and the Left-hand castes, to which frequent references are made in Madras Records of the 18th century and in Buchanan's accounts. Sharp differences of this type would obstruct the operation of an all-embracing organization.

It is not necessary for our purpose to summarise the descriptions in the Gazetteer of the working of the Gujarat Trade and Craft Guilds. Attention may, however, be drawn to two points of interest. The accounts emphasize the generally inferior socio-economic position of the artisans. This is made most clear in the detailed description of the panchayats in the agate industry and trade in Cambay. In this industry the Karkhanas in each separate process such as polishing and drilling were organised in separate panchayats, but at the head of the whole organization stood the panchayat of the agate dealers. It was the dealer who bought the rough stones, had them sawn and chiselled in his own Karkhana and then had them appropriately processed by others.<sup>26</sup>

Apart from noticing traders' guilds embracing many castes the Gujarat gazetteers also record the existence of what might be called civic organizations. "In the smaller towns the Sahukars, that is all bankers and respectable merchants being comparatively few in number, combine together for most purposes, into a single guild, which is by far the most influential body in the place and is generally able to carry with it all others. It is this aggregate of all the more respectable bodies which is commonly known to the outside world as the town mahajan." "On the other hand the phrase the Ahmedabad mahajan is a misnomer, there being no permanent aggregation of guilds which can claim to represent the whole of the city in the sense that the Dholera mahajan represents Dholera. The influence of the Nagar Seth combined with that of the alderman of the cloth dealers can generally command the adherence of all, but in such a case the various merchant guilds merely unite for a temporary purpose. They do not amalgamate into one guild as in the towns."

Though in the largest cities there was formally no city Mahajan, it often had an acknowledged, hereditary Nagar Seth who often played an important part in public affairs. For example, in 1725 the then Nagar Seth of Ahmedabad saved the city from plunder by the Marathas and, in recognition of this, the combined guilds of the city assigned to him the perpetual right to levy a quarter per cent on all goods stamped in the municipal weighing yard.

<sup>26</sup> *Gazetteer of the Bombay Presidency, Statistical Account of Cambay, 1877, pp. 30-32.*

It will be noted that the organisation of the Panchayats and guilds was almost entirely autonomous. The Government recognised them in relation to their sphere of authority and lent the support of its power for its proper exercise; it also used them for the purposes of the prince, the state officials or general public occasions or emergency. There appears to have been no interference by the State in their organisation or its internal working. This autonomous origin and operation may be brought out by observing the working at new centres.

The extent and type of developments in Poona city in the latter half of the 18th century provide a good illustration of the operation of the forces at work. Till about the middle of the 18th century Poona was a relatively small place. Its size and political importance grew rapidly in the latter half of the century and this led to an increase in trade and finance. In the absence of any developed indigenous commercial communities in West Maharashtra, there was an immigration of trading and banking elements from outside, chiefly from Gujarat. The Hindu immigrants from Gujarat were all Banias, but belonged to different places and different sub-castes. As none of the sub-caste groups were numerous enough, members of the various sub-castes formed a common social organization or mahajan. This mahajan differed essentially in many respects from the Gujarat mahajans. In the first place its basis was not any particular branch of trading or industrial activity; secondly it performed — could perform — no economic functions. It would appear that at no time did any trade organizations embracing all castes and communities come into existence in Poona. At the same time, when the Gujarat Wania group, in the last quarter of the century, rose to great importance in Poona and became organized, the chief of the group, Dullabh Das Govindji, assumed the title of Nagar Seth of Poona evidently with general acquiescence. The social character of the headship of Dullabhdas is clear from the belief traditionally held by members of the (Bar Nat) mahajan that in the early days of the mahajan permission for holding social functions like caste dinners had to be obtained from Dullabhdas.<sup>27</sup> While thus on the one hand an important immigrant trading community called its social head the Nagar Seth and was allowed to do so, the title did not lead to influence or position comparable in any way to that of the Nagar Seths of Gujarat cities. This is made clear by a letter from Dullabhdas to the Peshwa's chief minister, Nana Fadnavis. The occasion of this letter was the fear entertained by Dullabhsheth that an intrigue was going on to take away from him the conduct of certain minting operations which had been entrusted to him. Dullabhsheth in this letter avows that it was the patronage of the Minister that had

<sup>27</sup> See G. G. Shah, *Barnat Mahajanno Itihas*, 1957.

brought Dullabhsheth to his present high reputation. It was on that account that bankers from Rameshwar to Lahore recognized that Dullabhsheth was the Nagar Seth of Poona. In order to keep up this reputation, it was necessary to provide that, when Sahukars from other parts arrived in Poona or stayed there, they were treated with due respect according to their rank and that all transactions and disputes were settled so as to give general satisfaction. The minister having observed that this task was being performed disinterestedly had been pleased to confer on him the mint privileges to provide some income. This income was just sufficient to meet the expenses of the honorific office.

Mahajans on the lines of Gujarat cities never seem to have emerged in Poona and the title of Nagar Seth, stripped later of any meaning, quietly dropped out of existence. The Poona Gazetteer dealing with conditions in 1880 says

"There are no trade-unions or *Mahajans* in the district nor is there any Nagar Sheth or recognized head in matters of trade. Dayaram Atmaram, a Vani who died fifteen years ago and was the recognised head of the banking business, was the last Nagar Sheth of Poona."

In the circumstances, it would be correct to hold that the conditions of organization of trades in Gujarat cities sketched in the Gazetteer of the latter half of the 19th century were the most highly evolved in the country. There is also no reason to believe that the structure and organization of trades in Gujarat cities in 1750 were significantly different from those sketched in the Gazetteer. In most other parts such elaborate organization of craftsmen and traders did not either exist at all or were indistinguishable from particular caste or community organizations.

#### 8. *Types of Traders and Businessmen*

J. C. Van Leur in describing the trade of Southeast Asia in the 16th and 17th centuries draws a sharp distinction between two classes engaged in it: "Pedlars" and "Merchant Gentlemen."<sup>28</sup> In Indian conditions, there seems little justification for postulating a sharp distinction between any two such classes. There was no doubt very considerable difference in the scale of operations of a few of the largest merchants and the large bulk of the smaller men; but this did not lead to any marked difference in types or methods of business. Individual merchants rose to great wealth but even these indulged in a large variety of businesses. This is fully brought out by the following description by Moreland of the scale and diversity of operations

<sup>28</sup> J. C. Van Leur, *Indonesian Trade and Society*, 1955, Chapter II.

of two outstanding merchants of the 17th century about whom the English records testify.

"Virji Vora was eminently a merchant, that is to say, a buyer and seller of commodities, and his business extended to any class of goods in which there might be hopes of profit; but at the same time he freighted ships, he acted as a banker, he received deposits and he arranged remittances by means of bills or letters of credit on his branch houses. The activities of the firm of Malaya were equally multifarious, and I have not noticed any record of a banker as distinct from a merchant, or of a prominent merchant confining his transactions to a particular line of goods."<sup>29</sup>

Numerous references are contained in account of contemporary European travellers to the wealth and large operations of individual Indian merchants or merchant families. Of this class the outstanding representative in 1750 was the premier banking houses of Jagat Seth of Murshidabad and Patna. But even the Jagat Seths were engaged in the retail trade business of the four main kinds of spices outside European establishments.<sup>30</sup>

In India, in 1750, there existed little difference in kind in the types or methods of business between the large and the small businessmen. In particular, there was no difference in social status or origin such as might be conveyed by Van Leur by the term "Gentlemen" affixed to "merchant." Both the small and the large traders belonged to the trading castes of Hindu and ordinarily to the dominant trading communities even if Muslim. In the same way, homogeneous immigrant groups such as Armenians included both the large and the small among them. Moreland's description of an earlier period would appear to apply equally to the situation in 1750. He writes, "We may thus regard an Indian commercial centre of our period as comprising an indefinite number of men of business, not subdivided into numerous branches, but graded in accordance with their ability and command over capital."<sup>31</sup>

At the same time, the contention of Van Leur that trade was carried on, in the main, by a large number of small traders who together with their small stock undertook, in person, the risk of long distance travel appears to hold good of Indian conditions also. This applies to long distance trade both by sea and by land. The pack-animal caravans of companies of numerous traders engaged on long distance trade by

<sup>29</sup> Moreland, *From Akbar to Aurangzeb*, 1923, p. 158.

<sup>30</sup> Sinha, p. 140.

<sup>31</sup> Moreland, *op. cit.*, p. 158.

land had been traditional in India and to these references are to be found from the time of the Jatakas.

The emergence of the Vanjaras or the Lamans in the 17th and 18th centuries may be considered a special type of such trade caravan. Instead, however, of being chance collections of large number of individual traders, formed separately for each journey at each important point on the routes, the Vanjara caravans represented large bodies of persons bound together permanently in a kind of tribal organization, always on the move and continuously engaged in itinerant trading activity. Their origin is usually credited to the times of the Mogul Emperor's invasion of the Deccan and especially of Aurangzeb's campaign in Maharashtra.<sup>32</sup> Their chief characteristics were the large number of pack bullocks which moved in one impressive formation and the vast area which their operations covered. They seem to have covered the larger portion of Central and Southern India. They traded chiefly in grain and salt, but also carried other important commodities. They were particularly useful in making supplies to large armies on the march, but also provided normal supplies to settled populations. They appear to have been accorded, for the most part and by general understanding and convention, a position of special protection and privilege, so that princes over whose territory they passed or armies whom they met would not molest them and they would ordinarily be accorded special transit duty privileges.

Van Leur refer to Lords of the Land as taking a part in the large-scale trade or adventure. The ruler or his representatives would, of course, in ordinary course, impose levies, regular and irregular or occasional, on trading and other transactions. This process could become vexatious. Even in spite of some influence at the Imperial Court, European traders found it difficult to meet these levies and found it preferable sometimes to close their activity completely in particular centres.<sup>33</sup> Apart from this, the prince, the governors, courtiers or nobles might themselves wish to participate in trading ventures. Moreland mentions Virjee Vora's apprehension of the Surat Governor's

<sup>32</sup> "Our Governour having most unjustly and unconscionably forced some bunjarras (banjara, an itinerant dealer) to sell him a parcel of suggar and thereby made an unlawful gain of a 1000 rupees, is soe well encouraged thereby that he is now intended to become the sole merchant of this p'ace, being in hand to engross all the indico that the citty and contrey will afford..." William Foster, *English Factories in India* (1646-1650), p. 130.

"As for our buying saltpeeter of the Bunjaries, either now or in the future, there is no hope of it; for since they have bin soe plagued by the Dewan and this Prince (i.e. Murad Bakhsh) his officers, they have quite left the trade and bring no more of that commodity." William Foster, *op. cit.*, p. 75.

<sup>33</sup> For an account of the vicissitudes of the English factory at Patna, see M. N. Raye, *The Annals of the Early English Settlement in Bihar*.

intention to join him in a partnership in particular transactions and among instances given by Van Leur is that of a pilot of Prince Khurram accompanying merchandise for trading sent by the Prince in an English ship.<sup>34</sup> Most of this business would, however, be no more than taking advantage of one's position to share part of the gains of activity which had been initiated and conducted by the professional traders. There are hardly any instances in India of persons from among the ranks of rulers, nobles, administrators, military men, etc. using their positions to promote trading ventures actively or to establish their relatives, etc. in business. The one important recorded exception seems to be that of the career of Mir Jumla as a minister of Golconda. It may be noted that even Mir Jumla, who was a self-made immigrant merchant from Persia, does not appear to have been able to operate in the trading field after he joined the services of the Mogul Emperor. There are no instances of Maratha or Brahmin nobles in any part of the Maratha federation entering into trading ventures, though a number, especially Brahmins, did take to trading and financing activities under Maratha rule.<sup>35</sup>

The main reason for this phenomenon appears to have been firstly the specialisation of trading castes and communities, to engage actively in trading. There were special reasons preventing this in the Mogul Empire. Firstly, there was the practice of frequent transfers of the provincial dignitaries and secondly the rule that the property of all Mansabdars reverted to the Emperor at death. The latter fact effectively prevented the building up of a family fortune and the possibility of continuing in particular activity generation after generation.

It is natural to refer in this connection to the influence wielded by the trading classes or by individual rich traders on government or administration. This does not appear to have been large.<sup>36</sup> In the conduct of their own affairs, the traders would be largely self-regulated. This autonomy was a general feature of Indian social arrangements.<sup>37</sup> However, the traders do not seem to have wielded much political influence. The position of Hindu trading communities under

<sup>34</sup> Van Leur, *op. cit.*, pp. 206-207.

<sup>35</sup> The case of the Moplay viley of Cannanore who had several vessels and traded with, Arabia, Bengal and Sumatra cited by Buchanan must be explained by reference to the fact that Moplays were a notable trading community. F. Buchanan, *op. cit.*, Vol. II, pp. 555.

<sup>36</sup> It is not clear on what authority Van Leur states that in Surat "the wealthy merchant class held political power themselves", *op. cit.*, p. 204.

<sup>37</sup> A document describing judicial arrangements in Poona City during the time of Nana Fadnavis (1777-1795) indicates that in suits in which bankers, money-lenders and clothiers were concerned members of these classes were called in as assessors. *Selections from the Peshwa Daftar No. 45, Document No. 48.*

Muslim rule would obviously not be strong, but even Muslim traders or trading interests, wherever they existed, do not seem to have exercised influence on administration. Under most Muslim dynasties in all parts of India, power was exercised chiefly by immigrant elements of Persian, Arabic, Turkish, etc. origin. They rose to power not on the basis of fortunes made in trade, but through service of the State. Among the Marathas also, though the Peshwa and all the big chiefs were chronically in debt, there is no evidence of political power or participation in political intrigue by members of the older trading communities or even of the new Brahmin entrants in trade and finance. Neither can any influence emerging from local trading and financial interests in the Deccan and the Karnatak be traced in the intrigues and wars of the French and the English in that area around the middle of the 18th century. All concerned were beset with financial difficulties in these wars. Dodwell refers to Bussy's obtaining loans, during their course, from Bukanji, "the great banker of South India."<sup>88</sup> However, among the large number of persons and bodies influencing the course of events at this time no mention is made of traders or trading interests.

The part played by the Jagat Seths in the affairs of Bengal must, therefore, be considered as exceptional. The house was intimately connected with the Government as receiver and treasurer of State revenues; it had gradually become security for most of the renters of revenue and it found itself in a position of having to finance each successor to the Nawabship as the process always involved some trouble and outlay. The house was also a frequent lender to the European companies and private traders. Its unique position in the country and its connections with government, administration, finance and trade in all directions carried it naturally into the midst of political affairs. It should be noticed, in this connection, that the share of Hindus in the higher administrative ranks in the decades before 1750 in Bengal was much higher than was usual under Muslim rule anywhere in the country.

### 9. *Indian Bankers*

While it is true that there was comparatively little specialisation among the trader classes as a whole, there are two groups deserving some special attention. The first is the class of bankers and banking houses described below and the second that of brokers which is noticed in connection with European trade.

Among the trader financier classes, special attention must be paid to the somewhat specialised, small but overwhelmingly important,

<sup>88</sup> H. Dodwell, *Dupleix and Clive*, 1920, p. 92.

class of bankers. There were essentially three functions that Indian bankers or banking houses (Pedhis) performed at this time. The first was money changing. The number of governments in the country was very large and they were unstable. Coining was not highly centralised and there were large numbers of local mints. The variety of coins put into circulation was thus large. Moreover, coins were liable to deteriorate and new issues of even the same mint were usually at a premium. Large transactions, therefore, involved operations with a variety of coins and the fixing of their mutual values in exchange. This led to creation of agencies ready to accept payment in a variety of coins or ready to exchange one type of coinage into another. Sometimes the money-changers were specialised as such, but usually money-changing was combined with other financial or banking business.

The second function was that of providing bills of exchange. These usually arose out of commodity trade and were the means by which trade was financed or money remitted for purposes of trading. These operations depended on the existence of a system of banking houses with either branches or correspondents all over the trading area. Such a system was in fully developed operation in India before the beginning of the 18th century. The system obviated the need for carriage of large amounts of coins over long distances; which in view of contemporary transport and political conditions would have been both risky and costly. Highly developed forms of bills of exchange had been evolved with elaborate security practices and a number of banking houses in important centres of trade in India were in a position to provide bills drawn on branches or correspondents throughout the country. The resources of the largest among these banking houses were very large<sup>39</sup> and some of them maintained independent courier services of their own.<sup>40</sup>

The third function was connected with government finance. This had various aspects of which the chief were revenue receipt and remittance, revenue collection and loans to governments. Banking houses might be authorised to receive revenue payments made either by local officials or functionaries and remit them to headquarters. Even where they were not so directly authorised, exchange business would arise out of needs of remittance.<sup>41</sup> Where revenue farming was

<sup>39</sup> The Jagat Seths were reputed to be able to draw bills amounting to a crore (ten million) of rupees at a time. See H. Sinha, *Early European Banking in India*, 1927, p. 2, quoting Seir Mutaqherin: Cambray's edition, Vol. II, pp. 457-8. See also N. K. Sinha: *Economic History of Bengal*, 1956, p. 140.

<sup>40</sup> See Chaphekar, *Peshwaichya Savlit*, p. 41, for information relating to royal and private postal arrangements.

<sup>41</sup> "Under the Maratha Rule owing to the irregular manner in which their revenue was collected and the constant transfer of money to the Deccan, there



practised, the banking houses might act as financiers of the tax-farmers.

Lastly, as a natural corollary banking houses, large and influential enough to undertake any revenue functions, would be expected to make loans to governments. These loans would be either "ways-and-means" accommodation or long-term financing of military expeditions or other ventures. In the latter contingency, the banking house would expect to be compensated by special privileges or to obtain the security of revenue collections of specific regions, etc. These remarks apply to finance of government in a large way. However, even those banking houses, as well as traders and other substantial parties, who were not connected with any aspect of government finance might be expected to and be called upon to make term loans of reasonable amounts to governments. Such loans carried interest usually at a substantial rate.<sup>42</sup>

Apart from these functions, banking houses also provided trade and other finance to private parties. European factors at most centres in India found it possible and necessary from the earliest time to borrow from time to time funds from Indian banking houses to finance their purchases.

The large banking houses would devote themselves chiefly to financial operations. However, all of them were in origin combined traders and financiers. The largest of them at all times seized opportunities of lucrative trading, and most large traders performed some of the functions of banking houses.

#### 10. *Units of Business and Formation of Capital*

The unit of establishment was ordinarily everywhere the family. It was also usually the traditional Hindu joint family operating in the economic sphere on a more less uniform pattern, though the accepted legal concepts regarding the joint family were not necessarily the same all over the country. There was also the Hindu device of perpetuating the family by adoption when there were no male heirs and this was widely practiced. No forms like that of a continuous joint stock venture appear to have emerged, though *ad hoc* or short-period partnerships for business purposes was common. At the same time the large joint family embracing many collaterals, together with the

was a considerable traffic in bills, hundis, which was shared by the Viramgam merchants with those of Ahmedabad." *Ahmedabad Gazetteer*, p. 65.

<sup>42</sup> A list giving details of the numerous loans taken by the Peshwa from 1740-41 to 1760-61 shows rates of interest varying from about twelve annas per month per cent to Rs. 2-8-0 per month per cent. The most common rate for the period after 1755 appears to be Rs. 1-2-0 per month per cent. *Selections from Peshwas' Diaries: Balaji Bajirao*, Vol. II, pp. 170-180.

practice of adoption, secured uninterrupted operation of the individual family house or firm over generations. And such continued successful operation over generations could lead to accumulation of large resources in the hands of some individual families. Thus the fact that the unit was ordinarily that of the family does not appear to have acted as a bar against the accumulation of large resources in the hands of a single family.

This leads naturally to the question of forms of capital formation. As indicated above, the atmosphere was not favourable for continuous investment in agricultural development and there was also little connection between the agricultural economy and the urban mercantile classes. In the economy of the town the rational economic calculus held sway and for long periods of time it was possible to save considerable resources. In part these resources would be required to operate the financial, the banking and the trading system itself. The financial system specialised chiefly in money-changing and remittances of funds through *Hundis*, or bills of exchange. With a wide network of branches and correspondents for the remittances of funds, resources utilised in operating the system would be quite large. With delays in transportation the funds at different centres would be comparatively immobilised; therefore, there would be need of very large cash resources in the system. Money-changing was also a lucrative business but one that required large and varied resources of stocks of metallic coins. The trading ventures would also require relatively large amounts of capital in the holding of stocks and carrying them over time.

What would be the type of capital formation apart from these essentially working capital resources? It has been indicated above that the merchant traders had little connection with industry. They would undoubtedly finance artisans engaged in production of goods which the traders handled, but ordinarily they would provide loan capital and not risk capital. Therefore, accumulation of capital in hands of trader-merchants did not augment in any way resources invested in capital equipment for industrial production. The unit of industrial artisan production was the small individual workshop. It was only when the prince or powerful noble organized production chiefly for personal or official use that larger units came into being. The most important examples were the Karkhanas for the production of a variety of useful or luxury goods maintained by the Mogul Emperors.<sup>43</sup> These were maintained at Delhi as well as at centres like Lahore, Agra, Ahmedabad and Burhanpur. However, by 1750 such royal Karkhanas seem to have passed largely out of existence in North

<sup>43</sup> See J. Sarkar, *Moghal Administration*, 1924, Chap. X.

and South India. The Maratha Karkhanas were concerned chiefly with supplying military equipment such as ammunition and saddlery.<sup>44</sup>

Apart from commercial and financial capital, investment by the merchant-traders would be chiefly in houses and gardens etc. and other real estate or property round the city. Thus mercantile accumulation did not affect productive activity either in agriculture or in handicraft industry. The growing fortunes of merchants of cities would be exhibited outwardly, where such outward exhibition was not considered unsafe, in such features as the rich carved frontages of merchants' houses as in Gujarat cities; or they would be exhibited in acts of religion or charity by way of building temples, tanks, Dharma-shalas, etc.

On the part of the State capital formation in the public sphere during the times of certain rulers also took the form of building roads, canals, tanks and setting up, say, the postal system. However, it would appear that capital expenditure in the public sector mainly took the form in the 16th and 17th centuries of construction at very great cost of public edifices which served no real economic or social function. The mosques, mausoleums, palaces and pleasure gardens are all examples of this and the expenditure on these was overwhelmingly the most important type of capital expenditure undertaken by the State. Inevitably this tended to be concentrated at the main centres of political government or the locations or seats of powerful nobles.

It is not surprising that bullion and jewellery should play a very important part in the economic life of these centuries. They had advantages of easy concealment (which was important in times of political insecurity), of comparatively little risk of depreciation of value, and of being easy to transport. In the absence of avenues of capital investment for productive or development activities accumulation of resources in these times logically became tantamount to hoards of bullion and jewellery.

### 11. *British and European Business*

In a review of foreign modern business in India we are concerned chiefly with the activities of the British. The methods and procedures — political and economic — of the British in India were themselves shaped, in part, by the activities and experience in Asia of other

<sup>44</sup> See S. Sen, *Administrative System of the Marathas*, 1925, pp. 72-75, pp. 494-95, 659-664 and 668. On p. 668 Sen discussed the different senses of the word *Karkhana*. "Prof. Sarkar translates, *Karkhana* as a factory in his *Moghal Administration*, but the Marathas classed even the *Zenana* as a *Karkhana* (See Ramachandra Pant Amatya's *Rajaniti*) and therefore Prof. Dowson's translation viz. "a royal establishment" is quite appropriate." In the remark made in the text we note only these establishments that engaged in production.

Europeans through the previous two centuries or more, particularly those of the Portuguese, the Dutch and the French. The activities of Europeans in Asia were guided and controlled for the most part, by strong organisations which had close connections with the government of the home country. The Portuguese kings did not obtain sufficient response to their attempts at formation of companies of private traders to exploit the new opportunities of foreign trade. Hence this trade always remained a Royal Portuguese monopoly. However, from very early times officers and members of the crew were allowed some space in the ships for trading on their own account and also given a small percentage of the profits of the voyage. These privileges were later extended to port-to-port trade in Asiatic waters also. In this manner, there arose a sharp conflict of interest which presented a serious chronic problem to Portuguese Kings. A counterpart of this problem also troubled British administrators in the decades following 1750.

The Portuguese sought to establish for themselves a monopoly of trade with the East. The Muslims, chiefly Arabs, controlled Asiatic trade before the advent of the Portuguese. The Portuguese were intent on driving them out and keeping them out. This they succeeded in doing, but not content with driving out the Arabs, they insisted on maintaining the monopoly complete, not tolerating even private Portuguese traders and/or other Europeans. The desire to establish a monopoly may be taken to have arisen out of the high cost of a voyage and the great risks attendant on it. These could not be undertaken without the prospects of gains of monopoly profits; and once these were realised, their size led to efforts at making the monopoly permanent. The Portuguese, and the Dutch who came after them, both attempted to establish national monopolies of Asiatic trade. The Dutch and the English together effectively broke down the Portuguese monopoly; so that after the end of the 16th century the Portuguese no longer held even the dominant position in the trade of the Indian Ocean. The Dutch attempts at establishing a monopoly met with partial success in the area of Indonesia but could not succeed in any part of India. The English coming into the area after the Portuguese and the Dutch and having to counter the opposition, never pursued the idea of a national monopoly over an area, but even they operated with the then universally accepted idea of restricting, among the nationals of a country, the privileges of trading to a limited number of licensees.

By the 17th century the form of the main organization conducting overseas trade of European nations had become established as that of a national, chartered or privileged company. To the extent that the company was successful and its business proved profitable its monopoly might excite envy and create internal organised group

opposition. The history of the opposition to the British East India Company during the seventeenth century has been summarised as follows:

“Under the first Stuarts the conflict was waged between the Company and individuals or associations licensed, in infringement of the Company’s charter, by the king. Under the Commonwealth it widened into a struggle between the conservative section of the Company and a forward party within itself, but allied to the outside capitalists who claimed an open trade to India. Under the Restoration it became a war of law-suits between the Company and the independent mercantile community at large; a war only ended by the great Parliamentary amalgamation after the Revolution.”<sup>45</sup>

Where the collaboration of the Government of the State with the national company was closer (as in France), the opposition might not appear as openly as in England. However, even here an element of court opposition was often present and the companies very closely associated with, or dependent on, national governments suffered the additional disadvantage of being affected by the weakness and troubles of that government.

The form of the organization was that of the Joint Stock Company. It is interesting to watch the evolution of the joint stock principles through the history of the East India Company. The changes in the formulation and operation of the joint stock principles were, in many instances, connected with the process of incorporating opponents and broadening the base of the organization noticed in the above paragraph. Hunter divides the early period into two. The first, from 1600 to 1612, was the period of so-called separate voyages each of which was theoretically complete in itself and was to be wound up on the return of the ships by a division of the profits. The second period, from 1612 to 1661, was known as the period of joint stocks. Each subscription was raised not for a single voyage, but for several, or to carry on the trade during a certain number of years. The idea was still present, however, that each joint stock would be wound up after a time and its profits finally divided. Operationally, the concurrent separate voyages or periodic joint voyages were made possible only through the unifying effect of the higher permanent officials of the company and by the fact that the governing bodies of the successive joint stocks and particular and general voyages consisted to a large extent of the same men and that the capital for the different ventures was in part found by the same subscribers.<sup>46</sup>

<sup>45</sup> W. W. Hunter: *A History of British India*, 1900, Vol. II, pp. 120-121.

<sup>46</sup> *Ibid.*, Vol. II, p. 181.

The early period was brought to an end by the settlement made by Cromwell and ratified by Charles II. Two basic changes were effected at this time. In the first instance, there emerged the idea of a united and continuous joint stock. Instead of the stock being always dissolved, after a few years a periodic appraisal of the property of the company was provided for, so that any shareholder who wished to retire might do so and receive the current value of his original subscription. But the joint stock was to continue as the common capital of the company and the money drawn out by retiring members was to be made good by any other persons who chose to join the Company. At the same time the new settlement threw open investment in the Company to the public. As a result, there were admitted not only members of the various groups who made up the old companies, their servants and apprentices, but also merchant adventurers and private traders in India who might be willing to join. While thus amalgamating the various conflicting interests into one permanent joint stock, the new company provided ample safeguards for its own monopoly and there was to be no mercy for the private trader whether inside the company or outside it.

The closing decades of the seventeenth century proved very prosperous for the company and after the Restoration there were renewed complaints of the Company passing into a smaller number of hands. Opposition of outside capitalists and interloper trader interests became strong enough to obtain parliamentary support for a new Company. There was a short period of bitter struggle between the two companies. This was closed by an act of amalgamation of the two brought about by Government intervention and involving a substantial loan to Government. This episode helped to widen further the basis of the Company and to strengthen its capital resources. It did not, however, change in any essentials the nature of the Company as formulated in 1661 or abridge its privileges or monopoly. One of the effects of the struggle and the amalgamation appears to have been the great diminution in importance of the interloper elements in the 18th century as compared with the 17th.

The East India Company's organisation and methods of operation around 1750 may briefly be described as follows.<sup>47</sup> The Company's business was directly supervised by the Directors, organised "in cumbersome overlapping committees." The Court of Directors was the executive body and regarding both this body and the court of proprietors we have to note the presence of a strong "shipowners interest," so that the company had become committed to a policy of hiring rather than owning the specialised ships needed for the East

<sup>47</sup> See Holden Furber, *John Company at Work*, 1948, pp. 11-15.

India trade. In spite of this conflict of interest, and the conflict of interest with company servants in India, the company made profits. Its dividends were well maintained at 7 or 8 per cent per annum and its debts at home and abroad were not unduly large.<sup>48</sup>

Coming to organisation in India, we find that in the settlements the merchant was also the administrator, but before 1750, the latter function hardly had much importance. A system of seniority (the recruitment to lower ranks was, however, governed by patronage) had become established. Individuals who came out to India served as writer for five years passed through the stages of being factors and junior merchants, each of which lasted three years, till they became senior merchants from which all top appointments were made. Salaries were very low and private trading opportunities were the main incentive to come out to India.

There were present in most important settlements a certain number of free merchants who had been allowed by the Company to come out to India and engage in private trade and a certain number of persons who had come out without permission or had come out as servants of the company and had later left the service to make their fortunes in trade. Added to these, there were the Portuguese, the Armenians, etc. who played an important part especially in the first half of the 18th century. In each area nationals of some other European countries were also active. The trade of British subjects with Europe was closely guarded by the company and only the company's ships were engaged in it. In the coastal trade in India and Asian waters also, each European company, sought to control the activities of its own nationals so that they did not conflict with the interests of the company. But the difficulties of doing this effectively were very great. In certain areas some European nations themselves operated under disabilities and handicaps; the special position of the Armenians in relation to Philippine trade based on Madras was, for example, the result of discrimination against the British in that area.

In 1750, the number of private merchants and even of unlicensed European traders was comparatively small and in the coasting and country trade the British, though predominant, shared business with the French, the Dutch, the Danes, etc.

The trade of India with Europe grew rapidly during the first half of the 18th century. However, its character did not change in its essentials during this period. At this time as earlier, European goods were not much in demand in India. The goods imported in the largest bulk, particularly by the British, were woollen clothes for which there was at the best only a limited demand in the country.

<sup>48</sup> *Ibid.*, p. 15.

The other European goods imported were chiefly metals — lead, iron, tin, copper and quicksilver. The difference between the values of commodity exports and of commodity imports was considerable and had to be made good by importing bullion, chiefly silver. During the first half of the 18th century, the import into India of bullion by the British rose more or less in proportion to the rise in the value of foreign trade. The imported bullion and the monies obtained by sale of goods were invested in the purchase of Indian commodities for export. The chief export from all parts of India was of handloomed cloth and next in importance were raw silk and silk piece goods. Among other commodities the most important was saltpetre, the product of Bihar and Patna, Indigo exports from India, which had been of importance in the 17th century, had slumped greatly in the opening years of the 18th century.

The main profits of the companies accrued from the enormous profit-margin that existed in the Indian and Asian exports to Europe. This margin existed in all commodities, cotton and silk piecegoods, raw silk and saltpetre. The margin of profit on the imports into India was not large; the demand for woollen cloth in India was small and the market was chronically glutted by considerable British imports. In the market for metals, there was keen competition offered by other Europeans, especially the Dutch. The Dutch exploited alternative sources of supply of metals, such as copper from Japan, tin and spelter from Malayan Peninsula. The Dutch in this had a distinct advantage over the British in the first half of the 18th century. They controlled exclusively some areas in the Southeast Asia region and also held privileged position in other areas. This enabled the Dutch to maintain a multilateral international trade and lessened the need to import bullion.<sup>49</sup> The need to reduce, if possible, the imports of bullion into India led all Europeans into exploring possibilities of inter-Asia trade. It was hoped that the profits of such inter-Asian trade, including coastal trade (or, as it was comprehensively called at this time, the "country trade") might finance in part the investment required for purchase of Indian goods. It was this country trade that was the chief sphere of operation for the European private merchants and interlopers and also for the private activities of the servants of the company.

The country trade of India as it existed just before 1750 has been classified into three main divisions — Coastal, Western and Eastern. Surat and Bombay were the great commercial marts of Western India. They and the other west coast ports not only maintained a lucrative trade with the Persian and Arabian gulfs which poured large amounts

<sup>49</sup> See K. Glamann, *Dutch-Asiatic Trade (1620-1740)*, 1958.



of specie into India, but they also drew raw silk, piecegoods and sugar direct from ports of the Bay of Bengal. The trade with China, and the Malaya Archipelago lagged relatively behind. The East Coast of India traded, at this time, chiefly with the West Coast. Bengal had almost no contacts with ports in the China seas and the trade between the Malabar coast and China, which was chiefly in the Portuguese hands, was comparatively slight. The strong link between India and ports to the eastward was the trade between the Coromandel coast and Malaya, most of which was controlled by the Dutch, and the trade of Madras with the Philippines which was also in non-British hands.

The country trade had been growing throughout the 18th century and afforded great opportunities for the adventurous European seamen and others to gain a fortune and become owners ultimately of a "country ship" themselves. These might be interlopers or deserters from the company's ships or service. In the comparatively easygoing times before 1750, their activities were not severely frowned upon and they were not usually interfered with by the Company. This was particularly so because captains of these country ships had very important links with the servants of the East India Company in relation to their own private business deals. The position of the servants of the company vis-a-vis private trade and business is crucial to the understanding of the evolution of events and of business organization in the latter part of the 18th century.

The Company's servant was tied to his station and could contribute only in terms of finance and any privilege or prestige flowing from his position. For participating in country trade he had to enter into partnership with a private trader or a captain of a ship. In view of the long distance, the length of time taken by voyages and the constantly changing political and economic situation, the captains of ships had to be treated as partners or agents endowed with considerable discretion. The ventures were mostly in the nature of *ad hoc* joint-stock partnership. The conflict of the private interests of company servants with Company interests arose out of such situations as exceeding privileged cargo space and overloading Company's ships, diverting available financial resources in a centre to finance private ventures rather than the company's investment, tolerating activities of unlicensed or interloping personnel, preferring services of other European nationals, etc.

Before 1750 the servants of the company in India, were essentially merchants. They enjoyed some diplomatic status and had some occasions to have transactions with the Indian rulers and nobles. Also in the main settlements, they had begun to have a number of administrative duties. However, they were, mainly merchants concentrating chiefly on disposing of goods received from England on the best terms

to Indian merchants, utilising resources available to procure the needed supplies of Indian goods, especially those of the staple commodity in all centres (i.e. cloth).<sup>50</sup>

From the beginning, private business had been allowed to the company's servants and they had even been given some privileges as that of reservation of cargo space in outgoing vessels. All of them were, in relation to the responsibilities and hardships, paid very poorly and it was understood that they could gain a competence, let alone reap a fortune, only if they engaged in private business of their own. This private business would be, in the main, only of two kinds: business connected with the privileges such as ship space that they obtained from the company, and business in which they engaged on their own in any venture in the coastal or country trade. Lucrative opportunities of profit, as through civil or military supplies or through financial or business deals with the Indian potentates, which opened after 1750, were almost never in evidence earlier.

Licensed private merchants, as well as unlicensed but tolerated, captains and owners of country trade ships, were, because of this feature of the situation, closely connected with all the senior servants of the company in a series of joint trade ventures. In a sense the total trade of the European nations, especially of the British, was thus indirectly connected with the growth of the coastal and country trade in which the main companies did not engage to any material extent. Even though the direct benefit to the company of this trade was not considerable and though it created many situations in which the interest of the company and the private interest of its servants conflicted (and the company's interest almost inevitably suffered), the total effect of the marked expansion of country trade was a greater strengthening of the economic and political position of the European nation and its nationals, and this indirectly contributed to the strength and profit of the company.

From the earliest times Europeans employed Indian brokers for business in India.<sup>51</sup> Moreland notes that in the European factory records brokers are more prominent than ordinary merchants and their employment was a universal custom; and he takes it that the line

<sup>50</sup> The work of sorting the calico brought in by the Company's merchants was shared by members of Council with other civil servants, as in Langhorn's time. It was so dull and unpopular that Macrae issued special orders for its due performance. . . . See *Vestiges of Old Madras*, Ed. Love, Vol. II, p. 248.

<sup>51</sup> "For the buying and more advantageous disposing of the Company's goods, there are Brokers appointed, who are of the Bannian caste, skilled in the Rates and Values of all the Commodities in India. To these is allowed three per cent for their Care and Trouble." J. Ovington, *A Voyage to Surat in the Year 1689*, (Ed. Rawlinson), 1929, p. 233.

dividing merchants from brokers was the possession of capital.<sup>52</sup> There are frequent references in the Surat records to the Company's brokers but it does not appear that this was necessarily a fixed or permanently closed body or group. The Europeans at Surat had dealings directly also with large merchants and for the financial accommodation they had to resort to the large Indian banking houses. The pattern evolved early at Surat was appropriate to the conditions of Europeans operating under the protection of Indian Princes in large trading centres which had a substantial Indian trading community.

The position appears to have changed with the formation of their own settlements by Europeans, especially when during the course of years Indian traders found it profitable to settle in the English settlements and began to be treated as subjects of the British kings. In these settlements (such as Madras, Calcutta and Bombay) the company dealt with merchants who were residents in the settlements under them. The mode of transactions appears to be not brokerage but fixed contracts for transactions completed over a period.

The Madras records indicate the existence from almost the foundation of Fort St. George of a body of Indians called the "company's merchants." This body was a kind of continuous joint partnership with fractional shares held by individual members. The composition of the body, of course, changed from time to time but with one or two short interruptions it maintained its essential character until the abolition of the institution by Hastings in 1771.<sup>53</sup> The Company's transactions with this body of merchants covered both the sale of goods imported into India and the procurement of goods required for export from India. The "company's merchants" agreed in each separate contract, to take over (say, woollen cloth) imported into Madras during a period, at a given price and to supply bales of cloth of a given quality at stated rates. As against the contract, they appear to have obtained some advances but by and large the finance for the transactions was initially found by the Company's Indian merchants.<sup>54</sup> The Company's Indian merchants do not appear to have been in a position to lend large amounts to the Company for its investment or other needs. Such records as exist regarding loans to the company at Madras refer to loans by British, Portuguese or Armenian merchants and not by Indians.

At Calcutta, the system appears to have been somewhat different; the Company here entered into specific contracts for supply or sale of a given quantity of particular commodities with particular mer-

<sup>52</sup> Moreland, *op. cit.*, pp. 157-158.

<sup>53</sup> *Vestiges of Old Madras*, Ed. Love, Vol. III, pp. 10-11.

<sup>54</sup> See the copy of a contract in *Madras in the Olden Time* (Ed. Wheeler), Vol II, pp. 428-430.

chants over a given period. The merchants were collectively called Dadni merchants but the contracts were not entered into with these collectively but with each separate independent merchant.<sup>55</sup> These contracts covered the sale of imported cloth as well as the procurement of supplies required by the Company such as handloom cloth, saltpetre, etc. The Dadni merchants were not only a set of local merchants as in Madras but included some of the richest merchants in Bihar and Bengal. They were thus in a position to make loans to the Company in addition to the banking houses like that of Jagat Seth which were the chief source of finance of European companies.

Madras records before 1750 already show the growing power of the Indian servants employed by the senior officials of the Company. This is brought out, for example, in the reported exactions of the Dubashes of Presidents of Madras.<sup>56</sup> However, the Company's territories were at the time limited; their hold on the Indian merchants was not absolute. In the circumstances, abuses such as these could not go far. Also, there was no overwhelming dominance in terms of resources, etc. on the side of the company. In Bengal and Western India in particular the Company, through the size of its operations and resources, did not occupy a position much superior to that of the large Indian merchants.

Until about the middle of the 18th century, the range of contact that the Europeans had with the Indian rulers was limited. The initial purpose of such contact on the part of the Europeans was of course the obtaining of privileges, relating to settlement and to the favourable treatment on taxation, particularly customs and excise. The European factors did not usually find it very difficult to obtain reasonable treatment regarding such privileges. When the Europeans desired to make settlements of their own, they also obtained grants of land from Indian princes and a status of autonomous, if not independent, political governance of their settlements. Even this did not bring them directly into close contact with the current administrative or political life of the country. However, in troubled times, they could not

<sup>55</sup> "Contracts were entered into with the merchants of the country who received a part of the money (usually 70 to 75 p.c. of it) in advance which was called *Dadney*. These merchants who were known by the name *Dadney-merchants* contracted under penalties to deliver the goods at stated times and prices at the Company's principal settlements and were, of course, amenable to the laws of the country when they or their agents were guilty of irregular practices." Quoted in Raye, *op. cit.*, pp. 144-45. Sometimes when the company had not enough to make these advances, they had to allow interest upon them. See also N. K. Sinha, *Economic History of Bengal*, 1956, especially pp. 30-31.

<sup>56</sup> See *Madras in the Olden Times* (Ed. Wheeler), Chapters XXXII, XXXVIII and XXXIX.

entirely ignore what was happening around. The city in which their factories lay might be attacked from outside and they would find it necessary, if possible, to defend the factories. The need would arise even more strongly in the case of independent settlements. If there was disturbance or war in the country around the settlements, they might find it difficult to keep out of it. Here again, they would attempt to defend themselves where possible and would have to undertake previous necessary precautions such as fortifying the place or digging a ditch round it and they might have to do this without formal permission from the local prince. It was at this level that their contacts with Indian rulers and Indian political life necessarily became close.

They were specially involved from the beginning with another aspect: seafaring and the protection of commerce and communications at sea. The superiority of European seagoing vessels had been established for centuries. The actions of the Portuguese against the Arabs and the fights of the English and the Dutch against the Portuguese in order to establish the rights of their ships to voyage to India and to trade had fully established this position and had, in the process, created difficulties for Indian shipping. Indian shipping being the weaker was always apprehensive of the Europeans and of attacks by pirates whom the Indian authorities were themselves unable to check. Thus when Europeans had asked for privileges from the Mogul Emperor, they had been made to undertake certain responsibilities. The English, the French and the Dutch settlers in Surat had, for example, been compelled to sign a security bond for payment of the losses that might be sustained through piratical depredations in the western seas by subjects of the Mogul empire.<sup>57</sup>

The abortive attempt to wage a war on the Mogul Emperor made by the British in the last quarter of the 17th century was based on sea power. And the special responsibilities of Europeans in relation to sea commerce and sea power even before the beginning of the 18th century had obvious political overtones. The naval campaign undertaken by the British at Bombay against the Angria came earlier than the beginning of the French and British interference in the wars of the Karnatak. However, it was really this latter episode that completely changed the political relation of Europeans with Indian powers and consequently the whole pattern of the Indo-European relations.

<sup>57</sup> See Hunter, *op. cit.*, Vol. II, p. 355.

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**PART II**

**EDUCATIONAL POLICY AND POLITICAL QUESTIONS**





## PRESIDENTIAL ADDRESS\*

I HAVE to thank you sincerely for the honour done to me in asking me to preside over the deliberations of this — the 13th Session of the Conference of Secondary Teachers of this Province. My thanks are not the less sincere for the misgivings that I have felt in accepting the office. I have never yet taught in a secondary school and my knowledge of the working of secondary schools has been obtained entirely from the outside. My misgivings are increased by the reflection that the Conference will be called upon this year to consider an unusually large number of important issues and it adds to my embarrassment to find myself in this position in this City. For, though it is now some years since I left Surat I cannot yet imagine myself here in any position other than that of a member of the Reception Committee.

The last twelve months have been a period of unusual activity in the educational sphere throughout India. There have been many committees and conferences and many discussions and many pronouncements. In this Province four committees on education have been at work and have presented their reports. A number of changes in administrative arrangements have already taken place and more of even more fundamental importance may be expected. The results of all this activity must be passed under review by you and you must begin to formulate your opinions on the issues raised by the reports of committees and by recent trends in Government policy. I am acutely aware of the inadequacy of my qualifications to give you a lead in this matter. I must, however, by virtue of my position, express my opinions on some of the questions under consideration. I shall, in what follows, deal mainly with the important issues raised in the Report of the Committee on Vocational Training in Primary and Secondary schools.

The field covered by Joshi Committee — as I shall henceforth call it for short — is much wider than its designation implies. Virtually it has covered the whole field of primary and secondary education and the measures of reorganisation it has recommended are of a very radical nature. In the sphere of secondary education the work of the Joshi Committee runs parallel to the work done by the Consultative Committee in England. The Hadow report on the Education of the Adolescent (1926), on which the

\*Bombay Presidency Secondary Teachers' Conference, 13th Session, Surat, October 17, 1938.

subsequent reorganisation of secondary education in England has been based, deals specifically with most of the points on which the Joshi Committee has framed its recommendations. I, therefore, took the occasion to re-read the Hadow Report and found the comparison most instructive. It is obviously grossly unfair to judge the Joshi Committee in the light of a comparison of its report with the Hadow Report. The conditions under which the Joshi Committee worked were highly unsatisfactory. Its terms of reference were drawn up in a peculiar manner and the Committee was asked to report within two months of its first meeting; subsequently, no doubt, the period was extended but even so it must all the time have worked against time. To ask a large committee of a mixed character to present a scheme for the entire reorganisation of the educational system within a short period is a demand which should never have been made. We all sympathise with the motives which impel the new governments to embark upon large programmes of immediate action. But however natural such anxiety on their part it should not result in schemes of fundamental reconstruction being hastily framed and undertaken. Such schemes, if they are to stand the test of the time, can only be the result of prolonged enquiry and calm deliberation.

While it would be thus unfair to the personnel of the Joshi Committee to judge it by the report, the report itself and the recommendations contained therein must be put to the most searching tests. For, they may determine the future of our educational system. It is difficult to appraise justly the various recommendations. The difficulty arises chiefly from the compressed manner in which the report and its conclusions are presented. Rarely, except in the numerous minutes of dissent, is the case for or against a specific proposal argued out. So that a number of important conclusions which appear to the outsider incomprehensible may have been, for all one knows, arrived at by perfectly sound reasoning.

The initial and the outstanding difference that strikes one on comparing the Hadow and the Joshi reports is that, while the Hadow Report bases its proposals for further progress squarely on the experience obtained up-to-date, the Joshi report almost never refers to such experience in making its recommendations. This divorce of proposals for reform from the experience available, indeed, strikes one as the most notable feature of our educational thought, particularly during the last year. It is a feature to which we need must pay careful attention. During the last year a large number of ideas have been discussed and have obtained currency without it being thought necessary to correlate them to concrete series of experiences or experiments. I take it to be a commonplace of educational history that most progress has been achieved by the method of conscious experiment. The process of advance has meant at each stage the setting up of new aims and objectives and new methods of attaining them. Continuous experimentation is carried on in the educational world by persons

variously equipped and actuated by widely different motives and objectives. All these, by their successes and their failures, contribute somewhat to the stock of our knowledge and the development of our technique. No ideas are, however, accepted unless they pass through the stage of careful experimentation. Consider by contrast the procedure of the Joshi Committee. The first conclusion it states is that the principle of educating children through purposeful creative activities leading on to productive work is sound. The form in which the principle is stated does not very clearly convey its implication. But letting that pass, we may enquire what the Committee means by saying that the principle is sound. It may mean that the principle embodies an ideal educational method which should, if possible, be followed. If this were all, it would be no more than a declaration of faith into which we need not too closely enquire. The Committee, however, goes much further and recommends the adoption of this principle as the corner stone of our new educational system. When the Committee uses the word "sound" it, therefore, means that the principle embodies not only an ideal but also an eminently practical way of attaining the ends of educational activity. At this stage we are surely entitled to enquire what evidence is being adduced to support this large claim. The Joshi Committee gives no such evidence. You have merely its word for it. And so far as I have been able to ascertain there exists no single institution where the ideas sponsored by the Joshi Committee have been tried for any length of time. This is the amazing fact to which I would call your attention. We have here a large body of educationists vouching for the soundness of a principle which has never been put to a proper experimental test and recommending that the state should immediately spend considerable resources in setting up schools based on this principle. Most of you will recall to mind, by contrast, the history of many an important educational idea, the struggles it had in gaining a footing and the adaptations and changes that it suffered in the process.

I have no desire to discuss the idea of "basic education" itself. This is not the place for such a discussion, and even if I were so inclined I could add nothing to the able and concise minute of dissent of Miss Reuben. I am obviously also not against innovations. Indeed I believe that in constant and intelligent experimentation lies the only way to progress. But the uncritical acceptance of new ideas is as harmful to progress as a hide-bound conservatism. In the field of education, as in all fields of social endeavour, the experimental test is after all the only valid one and even our enthusiasm for reform or reconstruction ought not to lead us to turn a blind eye to this fact.

It may be urged as against this insistence on the basis of experience that experimentation in the educational sphere has hitherto been difficult in India and has been confined to a narrow field. A two-fold reply may be made to such a contention. In the first instance, the lack of experimental

data would justify not a rash acceptance of a new idea but conscious experimental effort in a variety of directions. Secondly, it would still be necessary to examine the basis of such experience as we have and try to learn what it has to teach us even through its failures. It is true that in the state and grant-in-aid system of education in India there has been little scope for conscious experimentation. But luckily for us there has been a fair amount of activity outside this system. There has been active in this country for thirty years past the movement of "National Education." Apart from this there have been the activities of missionary institutions and special efforts like those of the Gurukul or the Shantiniketan. All these have something to teach. The experience of "National" institutions is of special significance. By the very condition of their being, "National" institutions had to set before themselves objectives of the type that are coming to be very generally accepted today. Their funds were limited, their certificates or diplomas were unrecognized and their students had for obvious reasons no prospects of the ordinary service type. Under such circumstances these institutions had perforce to give their courses of studies a definitely practical turn. The difficulties encountered by the "National" institutions were no doubt not all educational. They were usually in difficulties for money and men, and the enrolment of students in them unfortunately depended too much on the strength of political sentiment. Granting the enormity of these difficulties, it must still be admitted by all that these institutions found the reform of the educational system in the practical direction a task of very great magnitude. The nature of their very successes is significant. The one branch of the Tilak Vidyapith that could be really counted as successful was the Ayurveda branch. In Gujarat in recent times in places when men, money and enrolment have not been so precarious progress has been achieved in other direction also. Reference may, for example, be made to the work accomplished at Bhavnagar. But this has been chiefly in the direction of the adaptation of well-established Western methods to Indian conditions. The chief successes of missionary effort have been in rural and primary schools or in educational efforts within closed communities such as the aboriginal tribes. In recent times even within the grant-in-aid system a fair number of private schools have tried development in the vocational or the practical bias directions. This is not the place to attempt a detailed list. What I desire to indicate is that the results of most of these experiments prove that our educational problem is far from being simple, and that no scheme of reorganization which ignores the difficulties made evident by these experiments can be considered as having been soundly conceived.

To return to the report of the Joshi Committee. We may begin a consideration of some of its specific proposals with noticing the new dividing line proposed by the Committee between the primary and the secondary stages. The Committee proposes that the primary stage should consist of

standards I to VII instead of standards I to IV as at present. As usual it is difficult to understand the reasons at the back of this proposal. One can only hazard a guess that this is perhaps a corollary of the seven years' scheme for basic education. If basic education has been already planned as a seven years' course the line of division between the primary and secondary stage cannot be allowed to disturb its integrity; hence, the line must move forward. Or perhaps the Committee was afraid that its ideal of a seven years' compulsory course would not be accepted unless this course was called primary. On any other reasoning it would be difficult to justify the proposed change. On the other hand, the case for the *status quo* could be urged almost in the words of the Hadow report, which also reaches the conclusion that the line of division between the primary and secondary stages should be placed at the age of 11+. It can be maintained that the present division is in accordance with the results of psychological research and the practice of legislators and administrators. If it is admitted that educational organization is likely to be effective in proportion as it is based on the actual facts of the development of children and young persons, the psychological argument attains overwhelming importance. This argument is reinforced by the nature of our existing school organisation. A very large number of our rural primary schools teach only upto standard IV and even the Joshi Committee realises that for financial reasons compulsion cannot at present be enforced beyond the age of 11, or standard IV. When we are yet not sure of reaching the stage of compulsion even upto standard IV within a reasonable time, it seems at least premature to think of a seven years' primary course. As long as a very large number of pupils continue to end their schooling at this standard that fact should by itself suffice to make us organise education up to standard IV as a separate stage. It is no doubt possible to exaggerate the importance of the dividing line; and it is true that whatever the line of division, proper linkage and continuity must be maintained between the two stages. But so long as the concept of the two stages persists the only logical division is at standard IV or the age 11. This alone is appropriate for the organization of our secondary schools and it will also help materially the reorganization of standards IV to VII of the rural schools. I need not reiterate that this issue has nothing to do with the question of lengthening the compulsory course. The trend towards raising the school leaving age is so universal that its desirability no longer needs to be argued. In the case of India the need for raising the age is specially urgent, as the Hartog Committee pointed out, for prevention of a wastage and relapse. We should raise the age, upto which compulsory attendance is required, to the full limit of our financial resources; but that age in no wise determines the manner in which we organise the different stages in our educational system.

The dispute regarding the line of division is not purely academic. It has considerable practical importance for the existing secondary schools. A

majority of these schools are organised so as to cover the stage — standards IV to XI. With the acceptance of the proposed line of division all these schools will be held to cover a part of the primary as well as the secondary stage. They would in that case, as the Joshi Committee recommends, be expected to provide for the teaching of the remaining portion of the primary course also.

The main question which presumably engaged the attention of the Joshi Committee was that of vocational training and vocational institutions. I have, however, found it difficult to understand clearly the Committee's proposals in this behalf. To the straight question whether the central schools under "Basic Education" should be treated as vocational or pre-vocational the Committee returns the oracular answer that they should be labelled as neither the one nor the other. Of course, the oracular method was the only one appropriate in this case. For, when we have yet no knowledge of how Basic Education works, the nature of its product could hardly be determined in advance. But the Committee's recommendations are not much clearer even in more familiar fields. Regarding special vocational institutions the Committee makes the simple recommendation that "it is essential to provide an adequate number of specialised vocational, industrial, trade and mechanical institutions" in view of the fact that the Committee has "put forward a scheme of primary and secondary education with a substantial practical instruction." This may be fairly interpreted to mean that the Committee's scheme of secondary education does not provide for vocational training. The Committee thus seems to have no suggestions to offer on the specific question of vocational training. It presents, on the other hand, an elaborate classification of types of courses to be taught in secondary schools. Among these courses are to be found courses called "Agricultural", "Commercial", "Industrial and technological." The primary division of courses suggested by the Committee is that into "General" and "Science" and each of these divisions is further subdivided. It is not made clear whether the division of the general course from science means that no scientific subjects will be studied by those who follow the general course and *vice versa*. We are told vaguely that these courses will enable students to proceed to vocational institutions, higher university courses and for practical walks of life, without any indication as to what adaptations to each of these particular needs are necessary and are provided for in the courses. Is the course of instruction suitable to a student who has to seek practical employment immediately after leaving school the same as the course prescribed to a student who goes on to a higher vocational institution? Would it not have been better if the Committee had considered for how many of these different types of schools there exists a real demand at present and how many of them could suitably be established and where?

The difficulty of comprehending the significance of this elaborate division of courses is increased by the following recommendation of the Committee : "For standards VIII and IX the course should be common to all, with the exception of practical work." As it stands, the sentence can only mean that, while what the Committee calls "formal instruction in the class-room" will be common to all, the practical work alone for each course will be different. This is however difficult to reconcile with the Committee's dictum that "to every school subject there is a practical side and it is this that we want to see emphasised in our schools." There appear two alternative interpretations of the Committee's recommendations : one that for some of the courses there would be no formal instruction corresponding to the practical work, or the other that some of the subjects in each of the courses would have no counterpart of practical work. Neither of these alternatives seem, however, to be satisfactory.

It is curious that in discussing the arrangements for vocational education and the various courses of studies the Joshi Committee makes no reference to our economic or social structure. A consideration of these is, however, very important for the subject in hand. Educational planning and social planning are very closely interrelated as Dr. Kotsching makes clear in his recent study of unemployment in the learned professions throughout the world. It is after all the facts of economic life that mainly determine the ages at which pupils finish their school education and seek entrance to occupations. We shall, therefore, do well to consider those salient features of our economic life which influence our educational system. Even the peculiar character of our present secondary education will be understood if we realise that heretofore this education was and could be availed of only by what may be called the "clerkly" classes and castes. As long as literacy is not universal and the art of writing remains a "mystery" those who have mastered it can gain a living merely on account of that fact. And while bookish education opens opportunities for freedom from manual toil, gives a higher social status and also perhaps a larger income it is no wonder that this education is eagerly sought. Anybody who studies the facts will tell you that even today the rewards in clerkly occupations in our country are proportionately higher than the earnings in the skilled manual occupations, than in other countries where education is more widespread. Consider from the other side the demand for the services of those who have received practical or vocational training. Agricultural lore of the traditional type passes from father to son without the need for the mediation of an extraneous educational agency. This is also the case with the majority of Indian crafts; though in many countries an elaborate system of apprenticeship has arisen in this stage of the economic evolution. Modern vocational education is after all a post Industrial Revolution affair and it naturally originated in England. The beginnings of modern vocational and technical education in England are found characteristically in the Mechanics' Institutes of the



early decades of the 19th century. The full development of the technical education system, however, took place in the latter half of the 19th century in the countries of the European continent, while England laid comparatively greater stress on training in the workshop on a modified form of the apprenticeship system. It is noteworthy that as a result of this close and continuous connection of technical training with industry the unemployment among the technically educated is much less in England than in any other country of the world.

It may help to put our educational problem in the proper perspective if we realise this fact, that the more elaborate forms of technical and commercial training have been called into being only by the increasing complexity of the technique of industry and commerce. When, for example, we complain that our graduates in agriculture do not take to practical farming or do not find employment on farms we do not pay sufficient attention to the organization of agriculture in India. Agriculture in India is conducted on such a small scale and at such a low level of remuneration that extremely few agricultural enterprises could bear even the minimum overhead charges of a trained graduate in agriculture. In planning our vocational education we must, therefore, pay constant attention to the volume of the effective demand for the products of such education from our agriculture, industry and commerce. Thus the effective demand for agricultural graduates could come only from very large enterprises — such as mostly do not exist in this province — or from government and semi-government agencies working for the general improvement of agricultural practice and the dissemination of agricultural knowledge. The low gains in agriculture make it at present impossible for this vocation to retain the services of the educated. I make bold to differ from the generally accepted statement that the village child looks down on manual work because he is brought up on books in our existing schools. Such experience as I have of this matter leads me to believe that the village child who attains a certain degree of educational competence leaves the pursuit of agriculture chiefly because his educational qualifications open for him a new avenue of employment. So far at least as the Deccan districts, of whose economy I have some knowledge, are concerned there is no tendency for people to desert agriculture unless there are prospects of better paid and more secure employment elsewhere. And this does not mean any starving of the land for want of labour. In most cases it is only one member of an agricultural family who thus takes his superfluous labour away from the fields and augments at the same time the meagre family income. So that even if we succeed in giving a much greater practical turn to our schools — and we are all agreed that this should be done — the educated villager will not be retained in agriculture so long as there is a market for his educational qualifications elsewhere. The problem, therefore, of the connection of agriculture to education resolves itself into that of a universal spread of educational facilities.

And I am not one of those who would scorn even mere literacy at this stage. Having been engaged during the last year in the collection of data relating to the business of farming it has been forcibly brought home to me how even just literacy may help the farmer to avoid many mistakes and many deceptions. This takes for granted, of course, that the problem of relapse into illiteracy can be dealt with adequately. It is only when the system of primary education covers the entire field that we can expect to have a majority of farmers who are literate and to whom, therefore, the fruits of the progress of scientific knowledge can be communicated with ease.

The problem of urban vocational schools is no less difficult. Numerically the artisan industries are the most important even in our towns. What is the type of education that the artisan industry requires or the educated product that it will attract? Traditional Indian artisan industry requires little advanced technical training; acquisition of skill in it is largely a matter of heredity and long practice. At the same time, as in agriculture, the level of earnings in the handicrafts is deplorably low; there is nothing in their present condition to attract anybody who has received training which commands a price in the market. All handicrafts are, of course, not in an equally depressed condition everywhere. This City, for example, has a notable tradition of skill, enterprise and adaptability which has enabled its handicrafts to maintain a somewhat superior position. The experience of the Drawing and Design classes which the Sarvajanic Education Society conducted in a part of the artisan locality fully exemplifies, however, the difficulties of vocational schooling even in this City.

There remains the demand from large organised industry and from the miscellaneous mechanical, partly mechanised and repair industries. This is being partially met by already existing institutions; but there is still open here a field where cooperative effort between educational authorities and those in control of industry will open new avenues of employment to the technically educated. This demand can at best be, however, of a strictly limited character.

I present these observations not to imply that it is impossible to do anything but rather to indicate the definite limitations under which we must plan. Though educationists when thinking in terms of their professional problems and technique may not pay attention to these considerations, the state must take account of them in planning the educational system.

The main stages at which students leave the school system in India are three: at the end of standard IV, at the end of standard VII and at the end of standard XI. Little in the way of vocational training can be done before the first of these stages, as most educationists are agreed about the unsuitability of vocational training or bias so early in the child's life. But at each of the successive stages there arise the problems of preparing students for vocational training after the stage or giving a bias during its last year. A variety of courses and types of institutions may thus become

necessary. The Abbot-Wood Committee has already considered some of the issues thus raised. What I would emphasize is the need for careful enquiry before adopting any particular type and before establishing an institution in any locality. The lessons on the comparative failure of our vocational and technical education so far must be borne in mind in determining the types. It is not also enough to think in terms of types alone and determine that they should be established in all localities of a certain size or character. The adaptation to regional or local conditions has to be much more close. The Hadow Committee while suggesting the adoptions of "practical bias" in senior classes hedged the recommendation with the following qualification. "This bias should be introduced only after careful consideration of local economic conditions and upon the advice of persons concerned with local industries. It should not be of so marked a character as to prejudice the general education of pupils." This cautious attitude is at least as necessary in India to-day as it was in England a decade ago.

One of the most radical proposals of the Joshi Committee is the recommendation to abolish all public examinations. The evils resulting from the examination system have of late been much under discussion. The tyranny that examinations exercise over schools is immense and it leads to the deadening of all initiative. Still worse perhaps are the effects on academic standards of what may be called the "cult of the examination rank." And in this respect we of the teaching profession are most to blame, since we have constituted ourselves the high priests of this cult. It is today generally agreed that steps must be taken to mitigate the evils resulting from the examination system. At the same time it would not do to forget that the public examination came into being to serve a definite social need and that it still continues to possess considerable social utility. It is less than a century ago that the public examination was hailed as a great invention for securing non-partisan and competent recruitment to public services; and as the measure of impersonal recruitment in both commerce and industry increased standardised certificates, diplomas, etc., testifying to training received by candidates became naturally popular with employers. In neither of these important respects can it be said that the needs which called the public examination into being have ceased to exist. Thus in all countries examinations continue to flourish while the evils of the system are universally deplored. No modification of the present arrangements will prove satisfactory which does not bear in mind these fundamental considerations; it does not appear that they were taken into account when the Committee made its simple proposal to abolish all public examinations.

A number of the suggestions of the Joshi Committee are so vague as to make comment impossible. The recommendations, for example, that "the aim of teaching English should be essentially practical" or that the Matriculation Examination should be "modernised" are almost meaningless

without an indication as to what they may mean in practice. Or again what is one to make of the bare assertion of the Committee that, "the standard of instruction reached at the end of our secondary course is intended to be that of the present Intermediate of the University." The possibility of reaching this goal in the manner indicated is not only not backed by evidence of any experience but even the predisposing conditions which led the Committee to arrive at this highly optimistic conclusion are not indicated. I shall, however, not pursue further the examination of this report which I have found useful for stringing together some disconnected thoughts on the subject of secondary education.

It will not be thought surprising if a student of economics refers to the financial side of the subject of educational reorganization. Finance after all is the limiting factor in all programmes of reform. I shall not deal with the question of primary education. Mr. R. V. Parulekar indicated in a brochure published some years ago a reasonable approach to the financial side of primary education. Mr. Parulekar's approach was based on a careful study of the experience of other countries. One of his suggestions — that regarding the shift system — has been accepted by the Joshi Committee. His basic suggestion regarding the adoption of a simplified curriculum has been virtually accepted in the recent circular of government providing for grants-in-aid to primary schools which do not attain the usual standard laid down by the department. Mr. Parulekar's approach is, of course, fundamentally different from the approach of "basic education." But obviously it is the only approach financially possible under the present circumstances.

Financial considerations carry considerable weight in the domain of secondary education also. The bulk of our secondary educational activity is carried on by private schools in receipt of a grant-in-aid. Some of these schools are definitely conducted for profit, others controlled by registered societies are still dependent to a very large extent on their income from fees. The type of school that will continue to be conducted by private persons and organisations will, therefore, be the type that can attract a certain minimum number of students. It is clear that at least in the near future the organisation of private schools will not deviate from the type dominant today. Vocational schools, bias schools or schools of any other than the standard type will in the large majority of cases have to be conducted at government expense or will have to be developed by means of substantial government grants. This financial consideration does not apply merely to deviations from the standard type of school; it applies also to reform in the standard type itself. Most suggestions for reform, let us constantly remind ourselves, mean increased financial responsibility. They involve increase in either accommodation, equipment or staff, usually in all these respects. It is, therefore, highly unlikely that a considerable number of private schools could under the present circumstances march quickly

along the path of reform. All those who have had anything to do with the management of private schools know the continuous strain to which their finances are subject. And though in recent years there has been a distinct trend towards somewhat better equipment and somewhat larger staffs the pace of such improvement, without extraneous financial aid, can only be slow. There are no doubt outstanding exceptions of a few schools in big cities to which the rich send their sons. I do not refer to these. I do not, on the other hand, also take count of the small mushroom proprietary schools of whom the less said the better. What I have said above applies to the big secondary schools conducted by well established societies which are representative of the better side of private school organization. These considerations lead to the conclusion that any radical improvement in the equipment and methods of secondary schools of the standard type must also be first attempted in government schools. The cause of educational reform in all directions thus depends chiefly on the resources of government; and the answer to the question whether the numerous ambitious ideas put forward at present can be given a fair trial depends on whether government finances can stand the combined strain.

I may confess that I do not believe that government finances can stand such a strain; nor do I think it desirable that our slender resources should be exhausted in attempting any ambitious untried schemes at this juncture. The problems we face are numerous and complex, our resources are appallingly small and the basis of our experience is highly circumscribed. The one relieving feature of the whole situation is that we are now for the first time in a position to think and work out for ourselves the solution to our problems. We are emerging from the Age of Bureaucracy into, what we hope will be, the Age of Democracy. Hitherto our educational system has been narrowly planned, highly centralised and minutely regulated. It has also been artificially divorced from many vital aspects of our national life. The possibility of changing all this is both our hope and our inspiration. Uncritical reforming zeal leading to wastage of resources and ultimate disillusionment will give us a set-back from which we may find it difficult to recover. We must, therefore, move forward with caution in the initial stages.

The immediate and urgent need, at least so far as the secondary education system is concerned, is to enlarge the basis of our experience by carefully planned experiments in a large variety of directions. The experiments must be adapted to every type of need, every type of institution and every type of local condition. Such work can be performed only if all our resources and energies are harnessed for the purpose. In a programme of action of this character your Federation can play a very important part. It may carry out preliminary surveys and may even take the initiative in planning. The programme, however, requires for its conception and execution that many conditions be previously satisfied. In the first instance,

the attitude of government and the department must be liberalised. The administration of the inspecting system must become much more elastic and a certain amount of money must also be provided for the purpose. The managers and heads of schools must also become genuinely interested in the educational activities they are conducting. They must further inspire a similar feeling in the large body of teachers. This can happen only if a democratic spirit is infused in the academic side of the administration of our schools, both government and private. Bureaucratic methods are no monopoly of government departments. They are also to be found in many of our large private educational organizations. The success of educational experimentation however, depends, in a great measure on the genuine interest and co-operation of the individual teacher; and all that makes a teacher feel secure and contented in his post and interested in his work makes also for the cause of educational progress. Lastly, duplication and waste of resources must be avoided by co-operation and a constant interchange of ideas. The Federation and its affiliated associations can play a specially important part in the last particular. We are all, I am afraid, always more ready to talk of first principles in the abstract than to discuss concrete problems in a practical manner. It will help the cause of experimentation a great deal if in the periodic meetings of local associations and in this Conference some time is set apart specifically for giving accounts of concrete experiments completed or in progress and a discussion of their implications and their results.

I have done. The concept of the teacher as an unpractical dreamer is rapidly giving way to the concept of the teacher as a dynamic social force. The new concept, as it is more honorable, carries with it greater responsibilities. It requires on our part greater knowledge of our surroundings and greater sympathy; it also requires a more rigorous and a more continuous use of our intelligence in the solution of the problems that face our profession and our society. The requirements are exacting, but it is only in the measure that we fulfil them that we shall participate in the realisation of the New Age that we all hope is about to dawn in our country.

## MEMORANDUM TO THE UNIVERSITY COMMISSION\*

NO time could, perhaps, have been more inappropriate for the appointment of a Commission for an enquiry into the general condition of the Indian universities than the present. The aims of university education and the structure and working of universities are, or have to be, intimately related to the general political, economic and social environment and are conditioned by it. Conscious reconstruction of the system of higher education projected or undertaken by a State must reflect the social objectives that the State sets before itself. Consequently a consideration of the general problem of university reconstruction cannot be profitably undertaken while these objectives are undetermined and social, economic and political conditions are in such a state of flux as that in India of the present.

The above may be elucidated by reference to two major outstanding issues, one political and the other economic. The political question is whether the Indian polity is to be considered as completely federal or as, in the main, unitary. On the reply to this question depend the answers of a great many questions in all fields, including the educational field. The Indian Union comprises many regions and people with divergent circumstances and traditions and speaking many languages, of which about twelve major languages have a long history and considerable literature and which are more or less on a par with each other in most respects. On one view of these facts the appropriate political structure for the Indian Union is a completely federal organisation. The federalists would maintain that given an appropriate division of subjects between the Union and the States the diversity of language is no source of weakness to the centre; they would argue that by giving full scope to the natural development of these different streams you could greatly enrich the common heritage of culture on which they all draw and strengthen its binding force. The Unionists deplore the fact of diversity, would endeavour to replace as far as possible the major Indian languages by one national† language and would bring under centralised direction and control even educational and cultural activities. All talk of development of State language and areas they would dub "fissiparous".

University reconstruction can begin confidently only after a decision on this major issue has, in fact, been reached. It is likely that the resolution of

\* Submitted in December 1948.

† The federalists would prefer the term "federal language" to the term "national language".

this highly controversial issue will take some time and today it is an open question which side will prevail.

The economic question is that of planned reconstruction. Will planning with a definitely socialistic bias be the prevailing economic policy of the State in India or will the prevalent quasi-monopolistic capitalist system persist for any length of time? Existing conditions of university constitution and operation reflect existing economic conditions and the questionnaire of the University Commission is concerned chiefly with problems arising out of them. Any planned economic reconstruction with a socialistic bias will change conditions of admissions to the universities and of university finance, development, etc. radically, and must affect, fundamentally, all thinking relating to the reconstruction of the system of higher education in the country. In this connection, again, the future is highly indeterminate.

Reference may also be made to a third speculative element in the situation. There is considerable talk (and has been ever since the beginning of nationalist awakening) in India of the specific Indian contribution to the stream of world civilization. The universities of the future ought to be greatly concerned with this potential Indian contribution. Today, there is little sign of any such contribution being made. The Indian intellectual society is, at present, a member on a secondary level of the general West-European system, more particularly of the English-speaking. The precondition for a change in this state of affairs and for the possibility of the specific Indian contribution beginning to emerge is the conscious investing of the term Indian with significant content. Much confused thinking prevails on this issue. The term Indian is made synonymous with the term "non-descript" by many; and the evident need felt of avoiding the main Indian stream that of Hindu tradition, is evidenced by the recent exclusive emphasis on Buddhist symbols. This attitude would lead either to a perpetuation of the present condition of Indian intellectual activity having no moorings or to a meaningless revivalism. This issue does not touch as directly the organizational problem of Indian universities as the political and economic issues mentioned above. Nevertheless it will greatly influence the spirit in which Indian universities will be worked in the future.

It is difficult, in the circumstances, to give detailed replies to the questionnaire of the University Commission. The Maharashtra University Committee, of which I was a member, examined most problems of university education in the context of conditions prevailing before 1947. On the assumption that these persist to a large extent, a not untenable assumption, my views on most matters would be those incorporated in the report of the Maharashtra University Committee.

However, the impact of new political and social conditions cannot altogether be avoided and I set out below some observation on how these are likely to affect the working and development of university education in the



future. The initial problem is related to the scope and nature of the system of higher education of the future. Certain trends regarding this have been marked in recent decades. These are the inclusion within the universities of communities and classes which were hitherto outside their sphere and the establishment of collegiate institutions at the smaller and remoter centres of population. Both these reveal a wide and increasing demand for university education and this continues to grow. The tendency is emphasized by the demand for the institution of external degrees which will enable persons to obtain university degrees without entering collegiate institutions. This increasing demand for university education is not, of course, peculiar to India. However, it has special results in India owing to the poverty of the people and the limited financial resources of Indian governments. In recent times, a substantial part of the finance of higher education in West Europe used to be contributed by private endowment. This part has steadily diminished and today the emphasis everywhere is more and more on State support. In India private endowment has not played as large a part in the past and may be considered to be of small account in the future. This is both because the needs of higher education will rapidly expand and because any socialistic bias to fiscal policy should diminish concentration of wealth. Today universities and higher collegiate institutions depend, for the most part, on government grants and their own income from fees. The almost exclusive dependence on these two sources is likely to increase rather than diminish. At the same time the demand for increased salaries by teachers and the higher standards and costs of equipment are rapidly increasing the cost of higher education per pupil.

The increasing gap between income and expenditure of collegiate institutions can be bridged only by increasing the rates of fees charged by them or through receipt of more liberal grants from government. A continuous increase of tuition and other fees means an effective bar to spread of education among the backward communities which are also usually the poorer communities. In the post-war period, the increase in fees that has already taken place, is having the effect of narrowing the range of educational opportunities of even the lower middle, especially salaried, classes who, particularly, have been adversely affected by war conditions. Government grants as a rapidly expanding source may also be ruled out. Provincial governments who are directly responsible for the finance of higher education have many claims on their limited resources. The claims of compulsory primary education and technical secondary education are specially urgent and these require such large funds that the educational budget of every provincial government is bound to work under a strain for many years to come. Central revenues may contribute towards attaining special objectives particularly in the field of higher research. They cannot, however, be depended upon as a source of current income for

the normal activities or the normal expansion of activities of the provincial universities.

Any intelligent planning of the field and work of Indian universities must take account of these basic conditions. For each region, estimates of the funds likely to be available for the maintenance of universities and collegiate institutions must be made, and the plan of future development must be framed within the limit laid by these estimates. The moment it is realised that financial considerations narrowly limit future possibilities of increasing the number, size and variety of collegiate institutions and university departments, a definition of priorities will become necessary; and obviously these priorities will be determined by reference to the plans of development, especially economic development, of the State. Consideration of the pace and direction of the progress of university education could, in this manner, proceed only on the basis of given data in relation to not only finances of government but also their development plans. And because of the limited financial possibilities no large programmes should get under way in the absence of development plans of government or without definition of the relation of educational development to these plans.

The same general considerations raise another important issue of policy. At present the opportunities of higher education open to any student in India are determined entirely by his economic resources. In a few provinces, like Bombay, a special system of governmental scholarships to students of the intermediate and backward communities has helped a small number of students of these classes to obtain higher education. However, the scope of the operation of this system is limited and, for the larger part, education is rationed even in this province chiefly in relation to the purse and not to proved ability to profit from the training. Before the Indian educational system can begin to fulfil social objectives now generally avowed, two requirements will have to be fulfilled. In the first instance, it must provide for all with innate ability to receive grades of education suited to them. This can only be done by a widespread system of school and higher scholarships and maintenance grants such as was developed, in modern times, in the U.K. The special handicaps imposed on certain communities by the special social and economic conditions in India cannot, however, be removed under the U.K. system of freely competitive scholarships. Therefore, a wide system of scholarships on the pattern of the U.K. will have to be modified in India by some special treatment for members of the backward communities. This alone can meet our needs. A really effective system of scholarships and maintenance grants will be extremely costly in Indian conditions; and this will impose another limitation on the pace of educational development in India.

The report of the Central Advisory Board of post-war developments contains a suggestion that the admission even to high schools, in the future, should be made after a selective test. This is, however, a stage that can

come after and not before an extensive system of scholarships and maintenance grants has been in operation. A completely planned and controlled system of education will direct all educands, after the initial compulsory stage, into various institutions and for various periods according to their tested, proved or supposed ability. But such a plan can work only if the State assumes full responsibility for the costs of education and maintenance during the period of education of all pupils to the extent that their own resources are inadequate for this purpose. In a poor country like India, the operation of such a full plan is at present far beyond the range of what is practicable. A widespread system of scholarships and maintenance grants does not do away with the present system of rationing by the purse; it mitigates to the extent of its scope the evil effects of the present system; and it is with this that a beginning has to be made.

The considerations set out above clearly indicate that the system of collegiate education in India must be both widespread and cheap. It has to be cheap because the country is poor, and it has to be widespread in order to bring educational facilities within the reach of as large a proportion of the mass of the people as possible and to keep down the cost of the system of scholarships and maintenance grants. Our circumstances also make it necessary to introduce within the institutions of higher learning in India as large an element as possible of "earning while learning" which is said to play so large a part in the educational system of the U.S.A. To my knowledge the only systematic attempt to introduce this element in a way suited to Indian conditions is that made by the Rayat Shikshan Sanstha, Satara.

A system of cheap and widespread higher education could function satisfactorily only if it is fed and supplemented by intensive work of the highest types of post-graduate training and research at a limited number of centres. It is clear that these centres of research and post-graduate training will have to depend to substantial extent on central subventions; some of them will be directly conducted and maintained by the centre.

The Indian system of collegiate education seems to be developing into a three-tiered system: (1) Indian Union institutes of research; (2) Centres of post-graduate training and research at headquarters of state universities; and (3) Collegiate institutions imparting instruction chiefly up to the first-degree stage, widespread all over the country. The change since the days of the Saddler Commission must be taken to be the need for degree colleges in localities where intermediate colleges might have been formerly considered sufficient. How fast conditions in this regard can change will appear from the difference between the situation in 1942 and that in 1948 in Maharashtra. In the former year the Maharashtra University Committee commented on the concentration of educational effort in Poona and felt that the organization of the University of Poona could proceed on the assumption of the continuance of such concentration. By

1948 the number of centres of collegiate institutions outside Poona, within the area of the Poona University, had increased from 3 to 8. There is little doubt that the scheme of the working of the Poona University as outlined by the Jayakar Committee would be materially affected by this change of circumstance. It would appear that the facilities for higher education in India must be spread in relation to population in the ratio of one degree-college centre to every 10 to 20 lakhs population and a university centre for every 60 to 100 lakhs population. The centres could be fewer in the more densely populated as compared with areas more sparsely populated.

The number of central all-India institutes of research should be kept at a minimum, (there is no need to establish them except for fundamental natural science research) and as large a proportion of the central fund as possible should be made available for the development of state university centres. It is now clear that the division of revenue resources and administrative responsibilities in the Indian Union will be such that state governments will be continuously short of money and any surplus funds needed for plans of development etc. will be all concentrated in the hands of the Union Government. In the circumstances, it is possible to take two views regarding possible future arrangements. It may be thought desirable to concentrate control of expenditure of central funds on education in the centre and to conduct activities financed by them almost entirely under direct central control. The other view is that direct central conduct of such activities should be kept to a minimum and that surplus funds available for education at the centre should be distributed on the basis of certain criteria related to needs and opportunities of the various states. The use of funds made available to state governments should be subject to general central supervision and schemes financed through them should be brought within the central effort at co-ordination of activities. There should, however, be no further detailed control by the centre on the expenditure of these funds by the state governments or universities. The latter view, which I hold strongly, is based on the conviction that India has suffered greatly from complete administrative centralization under the British. Regional and local effort, in which resides a large creative element, has been almost completely suppressed, except where it has been able to dispense with the need for official patronage. The prevailing tendency is to insist on centralization and to perpetuate the British system. If this is done the stifling effect of centralization will continue to be felt; there is also great likelihood, in this event, of an extremely uneven distribution of the advantages of central expenditure in India.

Two important aspects of university reorganization are intimately connected with the political, economic and social structure of the future. They are (i) the language of instruction and examination at the universities, and (ii) scales of salaries of university staff. No language can survive in

the future as a live instrument of thinking and the communication of thought which is not employed as the language of instruction at the highest educational stage. Also, no society in which the language of the lower stages of the educational system is also not the language of the highest, can function along democratic lines. Therefore, the only choice in India today is that between (i) basing the whole of the educational system in any state completely on the language of that state and (ii) making a vigorous effort to root out all languages other than one "national" language. The choice is between having one "national" language and having a number of state languages and one "federal" language. If it is decided to have only one national language, the working of the political and social system in areas where, and so long as, the national language is not the language of the people, will be as undemocratic as under the British. The decision to maintain and develop the state language will, on the other hand, imply an effort to canalise the trend of their development so that they remain close to each other and have all an integral relation with the "federal" language. The chief way in which universities can help this effort is to co-operate in the creation and use in common of the terminologies that will be needed by all the languages introduced newly as media of instruction of university teaching.

The question of the salaries of university teachers may be examined in two contexts. Firstly, it is a part of the general structure of salaries and standards of payment for all the salaried and professional classes. In India of today this structure has been determined by the administrative system of the British. The opportunity of beginning a radical revision of these scales was open to the Central Pay Commission but was completely missed by that body. In relation to the Indian national income and the current standards of living of the peasants and labourers, the salary scales in India have been pitched too high and the disparity is marked especially in relation to the higher classes, among which university teachers fall. This had had a series of consequences. One of these has been the perpetuation and intensification of the cleavage which the caste system had always maintained in Hindu society. Secondly, undesirable encouragement for seeking higher education because of the specially attractive opportunities open to its recipients. Thirdly, it has resulted in narrowing the range of effort at social reconstruction, including educational, open to the state in India by maintaining its cost at an unduly high level. It has in every way intensified the problems of social and economic inequality and their proper solution will be found impossible so long as the present scales are maintained.

The general problem cannot, however, be considered by a Universities Commission, which can only examine the relative position of university teachers in the background of the general levels of earnings of the salariat and the professionals. However, in this relative examination it should be

informed by the awareness of the impropriety of the higher ranges of salaries in India. For the larger part, the problem of the salaries of university teachers is a problem of employees of government or of semi-official institutions. Universities, because they are overwhelmingly dependent on government assistance, are considered only semi-official institutions, and the problem of the salaries of even university teachers is ordinarily considered in the same way as that of the salaries of the employees of the educational department, *i.e.* as of relative positions in an official structure. This has two consequences. Firstly, the necessarily lower salaries of readers and professors as compared with comparable ranks in administrative services tend to create an inferiority complex among them. Secondly, the comparatively high educational salaries deprive the teacher of the moral influence which the traditions and scales of, say, the British universities may give him.

The position of the Poona collegiate institutions is unique in this connection and it might be worth the while of the Universities Commission to pay some attention to it. Poona payments are, as compared to other Indian colleges and universities, very low; but Poona is, perhaps, also the one centre in India where the academician completely holds his own in society. Poona facts prove that the salary is a comparatively minor factor in the recruitment of teachers when appropriate traditions have been built up and the right opportunities are offered. The building up of these traditions have helped not only the working of collegiate institutions in Poona but also the spread of education at all stages throughout Maharashtra. It is hoped that the establishment of the University of Poona does not lead to any break in this tradition. At the time of the revival of the Deccan College as a Post-graduate Research Institute it was recognized that Poona conditions called for a special treatment of the scales of salaries fixed at the new Institute. The progress of the Institute during the last ten years has demonstrated the practicability and desirability of this step. There is no reason why the University of Poona should now adopt a different approach. Indeed, it is even more necessary than in the case of the Deccan College Post-graduate Institute, that the salary scales of the Poona University should not be far above the salary scales of the Poona colleges and institutions. Unless this condition is satisfied, harmonious working of the scheme of co-ordinated teaching at the University will be found difficult. In case salaries at the Poona University conform to general Poona concepts, their level will be substantially lower than that at the other Indian universities.

The peculiarity of the Poona system, which is now the Maharashtra system, is that educational institutions originate in the efforts of a band of teachers who look upon their work as a life vocation. These institutions also continue to be largely under the control of the body of teachers who

thus do not look upon the institutions merely as their employers. It is these factors which diminish the importance of the salary incentive. The conditions obtaining in collegiate institutions cannot be easily reproduced in a university. In the Poona University it is hoped to maintain the original spirit by integrating the working of the University with that of its constituent institutions and by being able to draw largely upon the teachers in the colleges for recruitment of the staff of the University. Also, in the constitution of the University the academic side has been made autonomous to a large extent and its control left almost completely in the hands of teachers, thus securing a continuance of the traditions of Poona educational societies.

It is difficult to believe that the Poona example will affect existing universities or official educational institutions which it has not affected in the past. Their development and expansion depend almost completely on official action and state finance. Their employees are not directly and continuously interested in their development plans. These university employees are not also cut off altogether from the general official hierarchy as the body of teachers in Poona is. Therefore, the problem of the salaries of these university teachers cannot be isolated — as it has been partially isolated in Poona — from the problem of the general structure of official salaries. However, there is no reason why the Poona experience should not prove to be of value in planning for the future. Even though Poona conditions cannot immediately be reproduced elsewhere it is clear that the main features of the Poona system — the autonomy of educational effort, the comparatively low salaries of teachers and the social prestige enjoyed by them — may with advantage be incorporated in any plan of university reconstruction in India. They are not only all desirable and necessary in themselves but also they fit in completely with the Indian academic tradition.

Today the situation in relation to the future of higher education in India is somewhat uncertain. While many plans have been made, immediate action appears assured chiefly in two directions. Considerable expenditure will have to be incurred in the attempt to make primary education compulsory and free; also considerable sums will be spent in building up a national institute of research and other activities such as those of the archaeological etc. departments, which are under central control. The commitments of governments and of the Constitution in relation to primary education are so wide that even a modicum of them could be fulfilled only with the severest economy. The staffing and conduct of central departments may, on the other hand, be expected to be as liberal and wasteful as at any time during the past. Secondary education and state universities will most probably be chronically starved of funds. There appears little chance of a rational, balanced plan, covering all educational

stages, emerging. In the same way there are no signs that the revolution in political and social ideas necessary to bring into being a really democratic society is impending in India. The provision of an educational ladder for the poor or a proper approach to the language question thus appear unlikely. In consequence, the situation is not favourable for thinking concretely of the reconstruction of the universities of India.



## OUR EDUCATIONAL POLICY\*

OUR nation has set to itself the task of rapid economic development. The Constitution prescribes certain goals of social policy in which considerable stress is laid on equality; and apart from the directives contained in the Constitution greater economic equality and diffusion of well-being are necessary pre-conditions of social and political stability without which rapid economic development cannot take place. Education is relevant to economic development directly in its role of building up human resources.

The importance of a high level of general education is obvious for economic development. The pace of assimilation of modern technology depends on the level of education of workers in fields and factories. For example, the maintenance of efficiency and progressive improvement depend closely on the ability of workers to follow written instructions. Moreover, on the assumption that there is fairly even distribution of ability in the population—and all evidence appears to support this assumption—diffusion of general education is essential for proper use of human resources. Unless there is a minimal diffusion of education and a minimal equality of opportunity, great waste of natural human talent is bound to occur; and without attaining these conditions, power in society will continue to rest in the hands of small closed groups.

The primary aim of educational policy, especially in a backward society, has to be the attainment of a minimal level of general education for the entire population and provision of equality of opportunity for further education. All future progress, especially economic, also depends on continued advancement of knowledge and technology. Therefore, provision for and encouragement of research activity assumes special importance.

Investment in education embodied in members of society can be looked at from two points of view: the social and the individual. The training and education obtained by an individual is a factor in determining his level of earnings, and from this point of view investment in education could be treated as any other particular act of investment. However, there is an important part of educational activity which may not be reflected in differentiated earnings of individuals. There are at least two types of such activity. The first is the building up of a basic level of knowledge, understanding and skills in the generality of the population, which, because it

\* Memorandum submitted to the Education Commission, published in *Opinion*, Vol. V, Nos. 51-52, April 1965, pp. 7-18.

is a common level, is not reflected in earnings of any particular individual; secondly, investment in advancement of knowledge results of which cannot be appropriated for the advantage of any particular individual.

The Indian educational system, like many others, has two broad divisions, the public and the private. The public covers chiefly primary education, technical and vocational education and the universities; the private covers the fields chiefly of secondary and non-professional collegiate activity. This distribution of activities is connected with the difference between the individual and the social benefits of education, subject to one important exception. This is that where investment in education which benefits individuals requires high initial capital investment, private effort has been unable to enter the field in India. (An exception, however, is the recent development of medical colleges dependent on 'donations' from students.) Also, most constituents of the private sector of educational activity depend on help from public funds.

The highest priority must be accorded to the objective of free and compulsory education up to the age of 14 embodied in the Constitution. The next priority is obviously research activity in all fields. Both these activities have to be parts of the 'public' system. For reasons connected with heavy initial costs and with importance attaching to manpower planning in the technical field, technical education as well as most of vocational education has also to be included in the public sector of education. Secondary education above the compulsory age and first degree college education (arts, commerce and science) have to be largely left to private effort; in this category would also fall the less costly vocational education. What has been called a 'selective' approach is impossible to adopt in education. In fields where promotional activity and support at selected or strategic points activate the whole area, the selective approach would be appropriate. In education not only are very large areas completely dependent on public support but private activity in other areas also requires support and seeks guidance from public authorities. Moreover, the total educational effort is, or has to be, so highly integrated that public policy has to take a comprehensive view and to plan action, direct and indirect, in relation to all aspects and activities.

It is unfortunate that the directive contained in the Constitution has not been followed in full measure. Apart from constitutional propriety, all considerations relating to economic development and social justice demand that the most strenuous efforts be made immediately to fulfil the constitutional requirement as early as possible. To the extent that the availability of teachers and buildings compel the adoption of shifts, part-time education between the ages of 11 and 14 may have justification. It should not, however, be related to the possible employment of juveniles. There is little evidence available in economic surveys, of any large-scale employment of juveniles either in the cities or in the countryside. The

extent of urban unemployment and under-employment in the country do not point to considerable possibility of juvenile employment. There are some special features of the situation, such as the very general neglect of the schooling of older girls because of the requirement of looking after younger children when the mother is away at work. Solutions to such problems must be thought out. There is, however, no need to think generally of part-time education for the age-group 11-14. Free and compulsory education of boys and girls up to 14 is an objective which must be put in the foreground and attained at the earliest date.

Fulfilling the constitutional directive is a sufficient short-term target for the public system in general primary education. Beyond this the field of general education is largely left to private effort. Vocational and technical education may also begin at 14. Attention has to be paid in this context to the pattern of employment. All data point to relatively little employment in the urban areas before 16. Rural employment before 16 usually takes the form of help in agricultural operations, especially at peak periods, which calls for little vocational or technical training. What is the best form which vocational or technical training between 14 and 16 can take? What is the most suitable form of training for those who enter the labour force at 16? Should this be in the form of a bias given in the general secondary education course or should it be full-time vocational training? Moreover, should the fact that large numbers may enter the labour force at 16 be allowed to shape the general form and content of secondary education? The relevant consideration, in this context, appears to be the degree of vocational skill or technical knowledge expected or required of persons entering the labour force at 16 in the types of employment that they are likely to obtain. In general the employments obtained are, for the most part, either unskilled or those which require little previously acquired skill or technical training. Therefore, it does not appear reasonable to allow the requirements of this group to influence the form and content of secondary education. Also, the relatively small and rudimentary special training required by this group for entering employment does not seem to indicate the need for incorporating on its account any specialized course in the general secondary course. Instead of trying to shape secondary education in relation to the requirement of this group, it is best to provide for them by short 3 or 6 months' specialized courses, whole-time or part-time, at the end of, or even during, the course of general secondary education.

The approach adopted above can be generalized. The extent of special skill or technical training provided for, has to be related to the requirements at the time of entry into the occupation. The lower the age of this entry the lower the importance of specialized technical knowledge and the greater the importance of such forms of training as apprenticeship or in-service training. This has special relevance to secondary education. The

complaint that specialization begins too early in secondary education in India is very well founded. The present practice is related to two sets of considerations. Firstly, the need for providing for those who enter into the labour force at the end of secondary education. Secondly, preparing specialization at higher stages. I have reasoned above that the first ground is not substantial. Regarding the second a number of observations may be made. It is doubtful whether early training in special subjects has any considerable value in future studies in those subjects. Opinion is now veering round to the view that insistence on requirement of previous training in particular subjects may be inappropriate even at the post-graduate stage. Forcing students to make a choice which will determine their life career some years before the secondary school leaving examination increases the possibility of maladjustment to a very large, unnecessarily large, extent. Everything, therefore, has to be said in favour of a general system of secondary education which covers humanities, social studies and natural sciences with options to vary emphasis within them but not to eliminate any one altogether. Further, whatever the options exercised at the secondary stage they should not be considered to restrict or delimit choices at the later stages.

All of this means that the system of vocational or technical education should begin at the end of general secondary education, except for the element of short-term courses. General secondary education, though operated largely through private effort, would, in fact, provide, together with the public system up to 14, the base on which all the later educational system is built and this must be taken as the necessary base.

Looking at secondary education from this point of view, one has to face the problem of numbers and has to elucidate the connection between the primary and secondary stages and the public and private systems. Financial considerations naturally come in. Private effort in secondary education is necessarily limited by the extent of help given by the State. The other part is, of course, the support to private effort given by society. The relevant concept in relation to public policy relating to secondary education is that of equalisation of educational opportunity. Equalisation of opportunity is relevant even to fields other than secondary education. However, if secondary education is considered, as above, to be the base, special importance has to be attached to giving everybody the chance to acquire secondary education.

Measures taken to equalise educational opportunity may help the spread of secondary education; and measures supporting the spread of secondary education would extend education at that time, and, therefore, in part, equalise educational opportunity. Reference may be made, in this context, to the policy of some state governments to cover tuition fees of students of a given category (e.g. children of parents with an income below a certain level), at all levels of education. It has been found that in Maharashtra

this policy has given a very strong impetus to the spread of secondary education. Such an approach may, therefore, be considered as superior to a policy which benefits only a particular stage of education such as the secondary.

Consideration of this matter brings in the question of tuition fees. Is there any justification, in a society like ours with very high inequality of incomes, for keeping tuition fees artificially low? It was indicated above that private effort acts chiefly in fields in which individual investments in education are likely to be reflected in increased earnings attributable to increased educational attainments. Logically, in such fields the total cost of the imparting of education should be borne by those who stand to benefit from receiving it; and this would be done by charging an adequately high level of tuition fees. As it is, the costs of secondary and collegiate education in India are, to a considerable extent, met through income from fees; the contribution from endowments is usually negligible and the State contribution is in many cases small. Theoretically the application of the principle could be extended even further than it is today and tuition fees raised to very high levels. This is what happens in special schools catering for the children of the wealthy. What is the objection to such an extension of the principle more generally? The first, of course, is that a further increase in the level of tuition fees would push it beyond the reach of parents in the lower-income brackets; a second is that if private effort is to be financed entirely through income from fees it will be confined only to places in which there is a sufficiently large body of students able to pay the fees; and a third is that in types of education where the initial and current costs are both high the benefits of education will be available only to children of the rich. These objections indicate generally the kind of situation and the kind of purpose for which public support should be available for fields of education in which private effort predominates.

The above analysis would indicate that the major help given by the State should be through covering the tuition fees, in whole or in part, of the classes who need such help. This could apply to all or selected fields of private effort. Reference has been made above to the measure adopted in Maharashtra. The particular measure can be criticised as having no provision for partial relief, so that a parent whose income is just above the exemption limit gets no relief whatsoever. However, with a greater element of discrimination and with a graded system of relief this particular approach may be commended. The other two types of exceptional cases indicated above would suggest that the State should bear some portion of the cost of establishment of educational institutions in areas where adequate private effort cannot emerge and for types of activities such as those types of vocational education where the costs are heavy. In most such cases the State help would better be given chiefly towards capital expenditure.

It should be noted that in the absence of State help the entire burden does not necessarily fall on the individual. Local society may bear part of the cost of establishment of school or college in its midst. To sum up this discussion it is recognised that given the proper demands of (i) universal primary education up to 14, (ii) post-graduate and research activity, and (iii) technical education, direct public action in other fields is not feasible. In the fields left to private effort, it is necessary to impose an appropriate contribution through tuition fees on all parents who are able to make it and to encourage the participation in costs of local societies. Assistance by the State is best given by a system of graded and discriminating coverage of tuition fees and by capital grants to institutions in special areas and of special types. This does not, of course, mean that education in the public system other than primary will be free. A high level of fees in these, especially the vocational, would, in fact, be justifiable provided that it is tempered by a system of graded relief in them.

The above does not exhaust the types of assistance that should be offered by the State to students. There would be categories to whom assistance beyond even the tuition fees should be given. In the higher stages, merit scholarships have importance. In the post-graduate and research stages, where the cost of earnings foregone begins to attain great importance, a wider system of fellowships and scholarships is necessary in order to attract and retain sufficient numbers. In this context emphasis has to be placed on the importance of a system of loan scholarships. Special help to the most disadvantaged classes looks after one category and merit scholarships help the ablest. There remains a large body of students at intermediate levels of competence and income who need timely help. And this is best given by a wide system of loan scholarships, which while not imposing a heavy permanent burden on public funds gives timely help and can be an important instrument of equalisation of educational opportunities. This system is best formulated and administered by state and local authorities but may require national loan finance backing.

It must be recognised that the scope, in a country with considerable unemployment, for the earn-and-learn approach is limited. Its institutional systematisation requires that the educational institution should itself afford the opportunities of employment and earning. This is the experience of the large efforts in this behalf made by the Rayat Shikshan Samstha, Satara, through acquisition of farm lands with irrigation facilities, and to a more limited extent, of the Anath Vidyarthi Griha, Poona. Such schemes where feasible have many merits. It should be noted, however, that the activities of the Rayat Shikshan Samstha in this behalf were greatly reduced when the Maharashtra Government introduced its scheme of paying tuition fees of low-income groups.

This discussion of financial aspects has to be related to the question of numbers. This has attracted much attention and the plea for restricting

numbers has received considerable support. It is difficult to sustain this plea. In our country and society education is the only means by which persons in all strata can hope to move upwards. We have little social mobility, and entry to many occupations is barred by social and economic considerations. In the circumstances, if a very wide diffusion of educational opportunities is not brought about, stagnancy in general and almost permanent suppression of the backward and poorer section would be inevitable. This would retard economic development and have very undesirable socio-political consequences. Instead of complaining against the pressure of numbers, therefore, the general keenness exhibited for education and the readiness of local communities to support it in their midst must be considered as one of the favourable features of our present situation. This does, of course, create many problems in terms of equipment and more especially personnel for educational authorities. The proper attitude in this case is to make the largest effort to meet these needs with even transitional make-shift arrangements and not to throw cold water on the enthusiasm or to discourage the numbers.

The general approach here is built on the experience, at the school level, chiefly of conditions in Maharashtra. In this state private effort in education has always been active and all classes evince great keenness for educational opportunity. This may not hold good for all states. Moreover, relative backwardness in education is often associated with lack of adequate private effort. In these circumstances, the spread of educational opportunity becomes more directly the responsibility of the state. This is a problem, as in other fields like co-operation, which has to be tackled by continued efforts of the state and the centre. It is in helping with solution of problems of backward states or areas that the special field of work of the Central Ministry of Education lies.

The problem of educational unemployment essentially reflects the relation between numbers in the work-force and employment opportunities afforded by the economy. Diffusion of educational opportunity leads to two consequences in this regard. Firstly, as a larger proportion of the work-force has received previous schooling, the proportion of the educated among the unemployed increases. Further, attainment of a given standard of education makes persons more mobile. The son of a peasant or artisan with some education need not be confined to his father's business (in any case there are always other uneducated members of the family to look after it) but can think of alternative jobs or openings. One aspect of the diffusion of educational opportunity could, therefore, be thought of as converting underemployment in agriculture or traditional industry into, chiefly, urban unemployment. This conversion is to be welcomed as contributing to pressures requisite for or inevitable in the effort of economic development.

The other aspect of educated unemployment to which attention is drawn is that it is concentrated among those who have received general education. This is logical and inevitable. General education must precede specialised education and must be most widely diffused as the base. The extent of specialised technical or vocational education is limited by the provision made for it. It is also limited by the extent of employment opportunities in particular directions. Where the supply of trained people in a particular type of technical employment exceeds demand, their position becomes even worse than that of persons with only general education. Unemployment among the technically trained imposes a double loss on society. Moreover, in a country in which economic development has just started to move at a rapid pace, the demand for technically trained personnel is bound to move ahead of the supply coming forth from existing institutions.

The immediate sphere of manpower-planning in India is the planning of technical and vocational education of all kinds. There is great lack of a unified perspective and of co-ordination in this field. There is a proliferation of independent authorities and institutions with overlapping programmes and a meaningless and wasteful competition for trained personnel among them. Bringing order into this is a highly necessary bit of preliminary planning.

The previous discussion inevitably raises the problem of quality. This is a field in which impressionism predominates and I make bold to put down some personal impressions. Comparing like and like I have no hesitation in saying that the standard of education imparted by the big schools run by private education societies in Poona is certainly no lower than it was 50 or 30 years ago. Analysing the situation further, school text-books today in Marathi are infinitely better than the Marathi and English text-books that I had at school. Text-books in Marathi could, in my opinion, also keep on continuously improving provided there is intelligent state policy in this regard. The average academic competence and training of teachers in Poona is also certainly not worse than before and school equipment is now better and the interests of school authorities wider. At the other end, *i.e.* post-graduate and research level, in my own subject Economics, it is clear that the facilities and the guidance available today in India are very much better than at any other previous time. Individual institutions may have their ups and downs but as a whole the total situation is progressing upwards. This does not imply that it is highly satisfactory or adequate to our growing needs; but it is not deteriorating. What then are the main sources of the general complaint about quality? I would identify three. In the first instance, because of the rapid growth of numbers there is a change, if you make the comparison in averages, in the background and receptivity of the average student. Secondly, with the wider openings now available and the larger numbers required, the standing and expe-



rience, and perhaps the average quality, of the teacher is also lower. Both these are inevitable concomitants of the transitional stage. The only way of keeping the situation in some sort of control is to lay down standards of equipment and staff for institutions and of performance for students and enforce them as strictly as practicable. The emphasis here has also to be not on achieving smaller numbers but on achieving widespread and general compliance. The third factor is language, of which more later.

Complaints about quality could arise from more special reasons. For example, during the last fifteen years the quality of students offering Economics at the post-graduate level has distinctly deteriorated in Poona. This is entirely due to the strong trend, which set in many years ago, for almost all those who did well at the School Leaving Certificate to opt for science and to think of an engineering or medical career. The rigid separation of Faculties in our universities effectively prevents any recovery for other subjects from among those who choose science at their entrance into college.

A digression into the subject of student indiscipline may be put in here. The generalisations on this subject are also very wide and wild. In Poona, for example, I have detected no signs of increasing student indiscipline during the last 35 years. I have heard similar statements from many teachers in the south and the west. Barring situations of temporary emotional disturbance, I would report student discipline as good at least in Maharashtra and Gujarat. To the extent that educational institutions have anything to do with student indiscipline I suspect it is the lack of minimum physical equipment and amenities and the minimum intellectual climate and sustenance that leads to it. Adequate class-rooms, reading-rooms, library facilities, playgrounds are perhaps most important. Almost equally important is the direction to the studies of the student, I may indicate what appears to me the most important possibility of improving the quality of our teaching and the performance of our students with relatively little additional investment of resources.

The inadequacy of the performance of our colleges in Poona is apparent not through indiscipline of students but through the proliferation of highly successful private coaching classes. This points to an important deficiency in the working, especially of the Arts Colleges. The teaching in these is confined almost entirely to formal lecturing. There is little attempt at guiding the reading and work of students and less at making them work regularly. In the circumstances, idling by students for the major part of the year becomes inevitable and equally the year-end recourse to the coaching class. The college has to look on itself as the institution which keeps the student busy for a reasonable part of the day and assists or, if necessary, compels them to work regularly. It has also to consider that one of its aims is that of helping the student in a practical manner to do what he and his parents are highly interested in, *i.e.* passing his examinations. It may appear

to be a lowering of our sights to place emphasis on the role of the college in preparing students for examinations. However, if this is done a minimum standard against which the performance of the new colleges that are being established in great numbers can be assessed will become available.

The additional inputs required to achieve these aims should not be considerable. Practical approaches to this matter have been blocked by certain old notions rigidly held. For example, there seems little justification for the insistence on small colleges and small lecture classes. A college well equipped and with extensive grounds, like say the Fergusson at Poona, should not be put under unnecessary restrictions. In every other sphere we are advocating as full use of the physical plant as possible and so long as proper standards are maintained this should apply also to educational institutions. Similarly it is meaningless to limit the numbers for classes of formal lectures. With modern equipment even a class of 250 in a good auditorium can listen with equal profit to a formal lecture as a class of 50. In fact it would be better to combine as large a class as possible for formal lectures. This will, at the reduced load, make the best talent available for the purpose and avoid repetitive lecturing. It is for guidance, written work and discussions that smaller classes and the appropriate staff for them are required. This additional input for instructional work in shape of additional instructional staff is absolutely essential and all efforts should be made to put it in. It is important for the University Grants Commission to look after such minimum basic requirements before thinking in terms of swimming-pools.

A large, almost entirely unexplored means of equalising educational opportunity is that of part-time instruction. The institution of external degrees as in the University of Poona has indicated a direction of effort. This must be followed up by using the building and library facilities and, to the extent possible, the members of staff of the colleges for purposes of part-time education. Special departments of colleges and of universities may interest themselves in such activities. The work of the Extramural Board of the University of Poona has spread widely and is much appreciated. This could be linked with or supplemented by activity more directly connected with specialised diplomas and university examinations. One could go on to think in terms also of broadcasting programmes at suitable times. But this reorientation will come about only if the widest diffusion of educational opportunity and the provision of an effective ladder of educational facilities for all, are recognised as national aims.

I have expressed myself in favour of strictly limited public support, in a direct manner, to secondary schools and first-degree colleges. I would, however, urge exceptions being made in two directions. Financial assistance should be made available to established institutions for experimentation in (i) improvement of standards of class teaching, especially,

guidance of work of students, and (ii) extension of activity in the direction of helping part-time students, preparing instructional material for students in out-of-way places, etc. It does not appear to me necessary to differentiate in any way between the rural areas and the towns. In case the present courses of studies in schools and colleges are found to be too narrow or having an urban bias, this should, by all means, be corrected. There is, however, no case for creating rural educational institutions as such. They are likely to be given an inferior status or to tolerate inferior standards.

If there has been deterioration of quality in recent years I would attribute the largest share to what may be called the language muddle. The inability of politicians, administrators and educationists to make up their minds on this question and to act has cost us very dear. The developing situation may be described as follows. The use of the regional language as the medium in secondary schools and the much larger proportions of the rural population taking to schooling has resulted in the overwhelming proportion of these seeking admission to colleges being not equipped to be instructed through English. Very little has been done, on the other hand, by the teachers either to equip themselves to teach through the regional languages or to prepare the material needed by students to pursue their studies through them. The result is enormous waste of time and effort at the collegiate stage and deteriorating performance especially in the humanities and social studies in which the language medium plays a vital role. The two major factors in this matter are the official class which has obstructed the use of Indian languages in administration and the central Ministry of Education which has played an equivocal role. Educationists must also bear their full share of the blame, as also the entire educated middle class.

I should like to recall how hopeful the situation looked in the early fifties by drawing attention to a neglected episode *viz.*, the Indian Languages Conference held at the invitation of the University of Poona in 1953. This was presided over by Mr. P. V. Kane and the sectional presidents were Dr. Suniti Kumar Chatterjee, Dr. Raghu Vira and Shri Masti Venkatesh Iyengar. It was attended, among others, by the Education Minister of Madras. With this range, the Conference yet reached unanimous conclusions of practical import. That the effort was not followed up by other similar meetings convened by, say, the Central Ministry is sufficient commentary on our situation.

The crucial step is use of language for administration and in courts. Once this step is taken change-over in the language of education will be treated as a matter of urgency and will gain momentum; until this is done efforts to promote the use of language and to produce books in it will appear unreal. The issue as I see it is related to the working of our society and our cultural traditions. The educational system had two

distinct divisions during British times—the vernacular and the English. Without acknowledging the fact, there is perpetuation of the older order today. I would not consider any society as democratic in which the language of the mass of the people was not used for all purposes and at the highest ranges. Also, no language which is not so used could continue to live and grow in modern times. So long as English continues to be used, as today, whatever the arrangement is called, we shall continue to be what we are today, second-rate inhabitants of the English-speaking intellectual world.

I am opposed to the entire approach embodied in concepts such as development of selected institutions, special schools for talented children and development of central institutions in each state. I am opposed to this entire approach. I have emphasised the responsibility of the public system to provide for post-graduate teaching and research, *i.e.* for university departments or specialised research institutes. These should be developed as open institutions to as large an extent as circumstances require and resources permit. It is, however, entirely wrong to have a hierarchical gradation in these institutions. Institutions are not made by pouring in money but by devoted men who can easily get over the handicap of limited resources. To postulate a hierarchy at any stage of education, especially at the highest, is to sap the foundation of all worth-while educational effort. Furthermore, this approach always serves as another decree for giving the children of the privileged perpetuation of the privileged position.

It is difficult to see how the authoritarian and bureaucratic outlook in education can be eliminated so long as the present administrative structure lasts. The two salient features of British administration, which had meaning then, were a highly select and privileged group of administrators who virtually ran the country and the insistence of a single line of command with little discretion for the lower officials. These features which continue in tact are meaningless today and are in fact highly harmful. The discouragement of initiative amongst lower officials remains as great as ever. Within this framework every structure takes on a hierarchical character and is operated in that manner. A Reserve Bank official inspecting banks, a University official inspecting colleges, or a U.G.C. official visiting universities all act as superiors and are treated as such. There is little open and equal discussion. Therefore, at no level in our structures is there available adequate information or sufficiently central outlook. As to motivation, the covetousness and corruption at the highest levels of our society are not such as to instil faith in honesty and hard work.

I am entirely against the institution of an Indian Educational Service, or giving larger powers to the Central Ministry of Education, or placing Education in the concurrent list. The bane of our institutions of higher education especially governmental, has been the service complex. Member-

ship of a privileged and secure service has ever discouraged effort, and the high prestige of administration has turned our values topsy turvy. The experience of research scientists in dealing with secretaries and joint-secretaries has to my knowledge been uniformly unhappy. Arrogant ignorance is not likely to encourage educational advancement and larger powers to the Central Ministry will enthrone it. As it is, because of the power of the purse, the Ministry and the U.G.C. play too large a part in our educational system. There is nothing in the record of either body to warrant extension of their powers. The Ministry's record is dismal. The record of the U.G.C. is not too bright. Basically it works as a big administrative machine with no arrangements for a two-way dialogue. The manner in which the three-year course at the universities was ushered in also showed operation on the basis of very limited experience. Even the concept of the 'advanced centre' was worked out mechanically and is being handled in a routine manner. With this experience with a body in which high-level educationists play a part, one shudders to think of what would happen if the Ministry were vested with greater power. The only certain results would be insistence on uniformity and the introduction of a still larger hierarchical element. Indian education is not suffering today from a plethora of experimentation or great diversity of approaches. It is not uniformity or correct procedure but independent thinking, working out a variety of approaches and schemes and bold experimentation that we need most.

## CONVOCATION ADDRESS\*

I AM glad to have this opportunity of delivering the Convocation address this year. I readily and sincerely give expression to the felicitations and good wishes with which such an address should obviously begin. I wish all the best in their future work, whether in academic studies or in practical life, to all the recipients of the various degrees conferred at the Convocation. I, however, find it difficult to follow the convention of giving guidance or advice. I feel that a convocation address may profitably initiate public discussion on matters of national, and particularly educational, importance. And in view of the very recent publication of the report of the Education Commission, I decided to examine critically in this address, some of the recommendations contained in that report. For the purpose, I choose firstly the place given in the Commission's structure of recommendations to estimates of man-power requirements, *i.e.* estimates of the employment likely to be offered to persons with all types of educational qualifications by the economy over a series of years and secondly the recommendation regarding establishment of major universities.

The basic statement of the Commission regarding the first runs as follows :—

“In order to restrict unplanned and uncontrolled expansion in secondary and higher education, it is necessary to restrict the provision for places in accordance with the man-power estimates, and wherever the applicants for admission exceed the places to make admissions on a selective basis.” This approach is obviously suited only to those completely planned economies where planning is highly centralised. So that only those who the state system says are qualified will gain admission to given types of educational courses and all employment placement is made strictly according to educational qualifications prescribed for the places and posts. The Indian educational system and economy operate in a vastly different manner. The sons of the privileged, rich and the influential can gain admission fairly easily to all general courses and a large number of professional ones. Moreover, though we have little exact knowledge as to the correspondence maintained between placement and qualification in the overwhelmingly large field of private sector employment, this at least is well-known that the recruitment to majority of high posts is confined to relatively narrow groups, variously defined. Therefore, in India the adoption of the approach of the

\* University of Poona, September 25, 1966.

Commission can only result in further discrimination against the poor and the weak. However, as the Education Commission raises a large part of its structure of recommendations on this approach I shall not content myself with stating this fundamental objection but examine it in further detail.

I proceed to set out my reasons for doubting both the reliability and the validity of the approach of the Commission. To regulate admission to all types of educational institutions at the secondary and higher level in accordance with estimates of man-power argues a high degree of confidence in their reliability. In this context it is good to remember that the estimates of growth of population and of employment opportunities by the Planning Commission in the draft outline of the 2nd Five Year Plan only ten years ago have proved to be highly incorrect. Estimates of man-power are derivatives of overall population and employment estimates and are based on a number of assumptions and on detailed division by sector and area. It is not necessary to argue at length that these estimates are, therefore, subject to a high margin of error. It is, however, relevant to state that man-power estimates can be related meaningfully to educational planning only if they are available in fairly elaborate detail. Educational planning, if undertaken, has to be mainly at the state and to some extent at the district level and must be related to each specialised type of educational activity. At least at present, it would be disastrous to take seriously as the basis of educational planning any series of detailed estimates of this sort prepared by any authority.

Further, in an economy in which a substantial proportion of the work force is in the category of the self-employed the concept of man-power requirement loses significance. In this context it is instructive to note the treatment by the Education Commission of the problem of education for agriculture. In the chapter devoted to this subject, the Commission has relatively little to say about the education of the farmer. In fact, on the basis of recent experience, the Commission considers it unrealistic to expect that persons with higher secondary education in agriculture will, in the present socio-economic set-up, remain on the land. Therefore, for the Commission man-power needs of agriculture are needs of the technical and other services required for agricultural development. And in this large, essentially service area, the first recommendation of the Commission is that "steps should be taken to form more accurate estimates of man-power needed for agricultural development—separately for graduates and diploma holders and to revise them from time to time."<sup>1</sup>

If the statistics available to the Commission to project the requirements of graduates and diploma holders in agriculture are inaccurate, one wonders how the Commission has proceeded to make estimates (set out to the thousand in tables—Table 5.2) relating to the requirements of matriculates in agriculture. Is the estimate made by the Commission related to the presumed inability of agriculture to retain the services of matriculates

or does it reflect a belief that farmers' sons need not have the benefit of higher secondary education? Because the Commission's estimates show that while the requirements of all matriculates will move from the actuals of 3,262 thousands in 1960-61 to an estimated 10,874 thousands in 1975-76 the corresponding figures for matriculates in agriculture are 381 thousands and 681 thousands. In the former case the increase is much more than threefold, in the latter it is less than 80%. If the approach of the Commission is adopted these estimates assume paramount importance. The logic is peculiar. You first assume that agriculture does not require matriculates and then argue that it is necessary to restrict opportunities for higher secondary education, if not also for the lower, for the rural population.

This leads me to the crux of the question, the validity of the approach of the Commission. In my opinion it is utterly invalid. Equipping a person for his vocation or his job is certainly an extremely important objective of educational activity. However, it is neither the sole nor the supreme objective. There are others at least equally, if not more, important. For example, it is universally agreed that the creation of a polity of responsible citizens and a society of cultured persons are among the most important functions of education. How do you assess the requirements in these regards and how put limitations on them? Against this background, I would like to repeat the question, how do you define the requirements of matriculates in agriculture? Is the answer related only to how useful the knowledge of the matriculate would be in agriculture or to the fear that the bright boys could not stay on land? Would not a large number of boys, not so bright at examinations, who matriculated and stayed on, prove a source of strength in the working of rural institutions and in the intended transformation of rural society?

I would go further and ask what valid criteria there are for determining man-power requirements, in any sector, for the large numbers who have only general educational qualifications. The large majority of clerical and lower administrative personnel in both public and private sectors get most of their real training on the job. At recruitment the employer looks mostly to the general educational qualifications, and other things being equal, prefers persons with the higher qualifications. Thus, the requirement in terms of the employers' preference are in this area extremely indeterminate. They depend essentially on supply and it is well known that in recent years, the educational 'requirement' at recruitment has progressively risen. Therefore, an estimate in this respect must either project an existing situation or make an arbitrary attribution of 'requirement' in relation to defined categories. But this is either circular reasoning or arbitrary decision. Logically, the Commission's position is tenable only on the assumption that at the end of the lower secondary, all general education ends and that you are afterwards training people only for specific professions or jobs.



The Commission is, however, not prepared to follow its approach to a natural conclusion and does not endorse the suggestion of Shri Gopalswamy that *all* recruitment by government should be at the end of the higher secondary stage.

I shall now turn to some of the more alarming aspects of the recommendations of the Commission which follow the man-power estimates approach. The basic conclusion of the Commission is that everywhere in secondary, especially higher secondary, and collegiate general education admissions must be selective; selective not in the sense of a universally required minimum qualification but in the sense of admitting limited numbers fixed by the plan from among those who qualify. Virtually, this will turn all our public examinations into competitive examinations, and the Commission seems to be unaware of the disastrous effects on education that this can have.

The Commission is aware that existing methods of selection tend to be based on a rather rigid acceptance of examination marks and that examination marks are "an undependable measure". It refers to suggestions for reform of present methods but even on the optimistic view that the Commission takes of the progress of the "new concept of evaluation" it recognises that the task of reform is stupendous and will take considerable time for new measures to make their impact. Moreover, the Commission is aware that efforts in the direction have been confined to secondary education and almost no attention has been paid to problems of examination at the university stage. Even so, the Commission emphatically recommends for immediate adoption universal selective admissions inevitably linked to ranking by marks at public examinations.

It is a general complaint that the studies of a large number of our students are today completely examinations oriented. However, when the aim of the majority is to be merely successful at the examination such orientation is not so disastrous as it is when the attainment of a competitive rank becomes the goal. The notable change in attitudes is obvious at all levels. I remember vividly the different attitudes towards their tripos studies and their civil service examination subjects among my contemporaries at Cambridge attempting to get placed in the I.C.S. The direct importation of the competitive element through the idea of selective admissions in our secondary and higher education system will spell the end of all such real educational activity as might be carried on today.

A second alarming feature is the prescription of advance or regression in education in areas according to man-power estimates. The following is a truly amazing recommendation. "In all areas where the level of expansion reached is about equal to the national average expected in 1986, a restrictive policy should be adopted unless there are special reasons to the contrary". The modern partiality for approaches that can be quantified and for preci-

sion, however, spurious, is fully exhibited in this recommendation, on which I shall make no comments.

Finally, there is the recommendation regarding the location of new schools and colleges. The problem meets with the most summary treatment at the hands of the Commission. The only factor that need evidently be considered is what the economists call "economy of scale". The Commission lays down that high schools below a certain size cannot be well equipped and efficient and that, therefore proliferation of "small and uneconomic institutions" be slowed down. Having laid down the law in average quantitative terms for the whole country the Commission finds that the position from its point of view is the most satisfactory in Kerala because of "continuous habitation and density of population". Even in Kerala, however, more than 25 per cent of the schools are of a size lower than the minimum that the Commission is prepared to tolerate. At the other extreme in Rajasthan only 15.6 are above this size. The Commission does not discuss the implications for policy of the obvious difference made by geographical conditions. And the problem of distance the Commission solves by making the following highly practical suggestions: "to adopt the practice of providing transport in the form of a bicycle to students who live at comparatively long distances and hostel facilities, where necessary".

The problem of restricting the number of new schools and colleges and regulating their location is undoubtedly serious and has to be tackled immediately. However, the blanket restrictive recommendations of the Commission in this regard are unhelpful and are likely to be widely resented. One general recommendation of the Commission may assist partly in the solution of the problem and should be immediately adopted. This is the long delayed transfer of the pre-university courses from the university and colleges to the schools. The transfer will benefit secondary schools by strengthening the resources and improving the quality of the more important among them. It will also put a check on the wasteful proliferation of first degree colleges as it will remove from the base, the pre-degree classes which provide the main finances.

As man-power estimates are inappropriate, uncertain and misleading in relation to planning educational development, we have necessarily to fall back on the level of available resources. In planning there is always an element of arbitrariness involved in sectoral allocations, especially in relation to social services, the direct economic return to which is difficult to calculate. Educationists have to argue for a larger proportionate allocation to education but once the overall division has been made the internal distribution by stages and areas presents many difficult problems. The prior claim of primary education is obvious and in the sphere of professional, vocational and technical education short-term man-power estimates should prove useful in planning. The really difficult problem is that of the general secondary and collegiate education where the demand is large and the effort

mainly private. This problem has to be tackled by each state in its particular context.

It will need detailed analysis and action and this can only be done at the local level. In this respect the recommendations of the Commission for thinking in terms of district planning and looking to needs of local areas may, if adopted, prove valuable. However, for planning the location and number of schools I consider the taluka and not the district as the proper unit. The district average can be misleading; for, with it the advance of Haveli may impede progress in Maval. What is required is a two-pronged attack. A strict policy must be followed regarding new schools in developed areas and locations and there has to be insistence on raising standards. At the same time detailed attention has to be paid to areas and classes not adequately provided for, and suitable programmes of extensions of schools and hostels must be devised for them. And it has to be remembered that neglected areas and classes are not necessarily fully covered by the scheduled castes and tribes category.

It is only fair to record that the Education Commission devotes a whole chapter to a consideration of the problem of equalisation of educational opportunity. Unfortunately few specific and concrete suggestions emerge as a result of the discussion in the chapter. The section on scheduled castes and scheduled tribes suffers, for example, from defects which are widely evident throughout the report. There is an absence of critical examination of recent experience, failure to identify the immediate and the basic problems and vague and insufficiently argued out recommendations. The summary findings of the Commission on the problem of scheduled castes are a good illustration.

“In so far as the Scheduled Castes are concerned, the problem has become a little easier because of the diminution in the rigour of untouchability. For its early solution, however, we recommend that the existing programmes for the education of the Scheduled Castes should continue and be expanded.”

The discussion on regional imbalance is almost equally vague. Data relating to districts in various parts of the country are adduced to indicate the large variations in enrolment and expenditure between district and district. However, the recommendations do not go beyond stating that “the necessary administrative and financial measures should be taken” to reduce inequalities. During the last fifteen years we have not suffered from a lack of solemn declaration of objectives or of exhortations to act vigorously in given directions. However, in spite of a plethora of these, we have failed to register significant progress in many important fields.

The recommendations of the Commission in relation to the general question of equalisation of opportunity between the rich and the poor in any particular environment contain one concrete and in some respects

novel suggestion. This is the suggestion to award the scholarships on the basis of a cluster of schools. The Commission recommends that it would be desirable to group schools in small clusters on the basis of their enrolments and socio-economic backgrounds and to select the top "few" students in each cluster for the award of scholarships, the actual number of students to be selected depending upon "the funds available". This approach the Commission terms an egalitarian approach. It would have been better if the Commission had explained its recommendation more fully and more particularly had illustrated its possible results through some selective case studies. At least on a first cursory examination it seems to me that the recommendation may not prove effective. Even though the Commission is fervent in the expression of the hope that the public examination should not be the sole criterion of judgement, it is inevitable that all its recommendations regarding selective admissions etc. will increase the importance to the student of the individual rank he obtains in public examinations. By merely confining the collective ranking to a particular group the basic discrimination resulting from the examination test will not disappear. A cluster, unless it is very small or is geographically discontinuous, will contain some favoured schools and schools in most areas will contain some students from privileged communities. Therefore if as the Commission states there is urgent need that due allowance is made for the widely varying levels of preparation among students, which reflect not so much the variation in native capacity, as variations in socio-economic backgrounds and in the standards of secondary schools which they attended, this will have to be done in a much more direct and effective manner than through the device of 'cluster scholarships.'

I have felt it necessary to devote the major part of my address to a consideration of this aspect of the recommendations of the Education Commission because these raise certain basic issues for our future. I feel that the Commission has entirely failed to appreciate the dynamic part that expansion of education has played and is playing in the transformation of our society. Ours is an essentially unequal society, where those with wealth and rank enjoy many privileges and the handicaps on the underprivileged are numerous, where occupational mobility is small and employment opportunities neither ample nor diversified. In such a society it is only educational opportunity that can be relatively equalised by public policy. Through the past decades class after class, area after area in Maharashtra have striven, with or without official support, for expanding educational opportunities open to them. The movement has thrown up notable leadership and an army of workers; it has also received solid and enthusiastic popular support. The entire process has been on the whole beneficial, making for a more evenly balanced economy and society. The process is far from complete and nothing should be done now to check its progress. Undoubtedly, any major waste resulting from un-

checked expansion must be carefully eliminated. But this must be done as part of a positive policy of spreading and equalising educational opportunity and not through adopting a restrictive and regressive one.

I have time to discuss only one other recommendation of the Education Commission. This is the important recommendation regarding the creation of five or six major Universities. The discussion must begin with the description that the Commission gives regarding the present situation in our Universities. I give below some extracts from this description :

“The existing situation in higher education during the academic year broadly alternates between slackness and strain — slackness during the session, strain at the time of examinations. In many of the weaker colleges and universities, a majority of the teachers teach mechanically and listlessly. The subjects in which they lecture do not often involve their intellectual passion.”

“A large proportion of teachers suffer from financial worries — particularly in colleges where grades are low — and are often unable to buy any books or journals. Even the physical conditions of work discourage serious, undistracted study or intellectual dialogue with their colleagues. Usually, there is one staff common room which is not large enough even to accommodate all the members of the faculty. In some of the institutions, there are additional factors which are uncongenial for the development of intellectual vitality. The hierarchical concentration of authority within the departments and colleges, the atmosphere of distrust between senior and junior teachers, the cynicism about administrative authorities, the unseemly conflicts about offices and positions and the attitude of envy towards persons of superior attainments — all have contributed to the deadening of the spirit of intellectual curiosity and adventure. Some of the members are diverted from intellectual concerns into intrigue and conflict over the small administrative or financial prizes afforded by Indian academic life.”

“The situation with regard to the students is no better. Many now come from comparatively or entirely uneducated homes and are ill-prepared at the secondary level to undertake genuine university work; they have little experience of independent study; their curiosity is unquickenened and learning for them is mainly a matter of mechanical memorization. There is, as a rule, little discussion of intellectual matters with their teachers or fellow students; their main duty is considered to be to attend uninteresting lectures usually given in a language which they understand inadequately. When the medium is an Indian language, there is a dearth of suitable text-books and supplementary literature necessary to achieve competence in their subjects. Many of them cannot be expected to read text-books in English because it has not become for them the language of the library. The capacities of the better students

are not fully stretched by curricular offerings or the stimulus which inspiring teachers could provide. In addition, a large majority of students are beset with financial worries which make concentration on academic work difficult.

I agree with the Education Commission that the picture drawn by it is not exaggerated and that these, among others, are the problems that we have to face. However, in presenting the picture, the Commission lays special stress on the position in India as compared with that in educationally advanced countries and also considers that the magnitude of the problem today has become specially large. As the Commission's observations in these respects are a prelude to its recommendation regarding major universities some comment on them is necessary. That our situation and performance compare unfavourably with those in advanced countries and that the gap is continuously widening, in recent decades, is true of every aspect of our economy and society in relation to which availability of material resources is a governing factor. It is a problem not confined to education; nor can it be solved for education by itself. It is only when our resources and income *per capita* are at a much higher level and begin to increase rapidly year after year that the comparative situation in any regard can improve. Till then any manipulation in any sector can lead only to change, say, in internal composition, but not to any overall betterment. Secondly, the Commission does not take sufficient account of the progress that has been made in the last two decades. The progress in this city, for example, in the facilities available for research in a large number of subjects and the personnel engaged in research in them, has been very considerable. I admit that the situation is yet unsatisfactory and larger effort on the part of all of us is called for. However, what has happened proves that careful use of even modest resources can lead to substantial results.

I now turn to the proposal of the Commission. This is to create five or six "major" universities by concentrating resources and scarce personnel in them, so that they become comparable to the best institutions of their type in any part of the world. I propose to examine this proposal in relation to (i) its practicability, (ii) its effectiveness in solving our present problems as presented by the Commission and (iii) its effects on other universities.

The Commission evidently believes that in academics, excellence is achieved by massing resources; it also seems to think that these "major" universities will suffer from no problems of administration, of personal relations or of hierarchical ordering. While it may be true that an isolated scholar with a heavy load of other work cannot develop his potentialities, a high concentration of a body of scholars is not absolutely essential for the best type of work. The newer departments in a large number of Indian

universities are gradually establishing conditions in which a steady stream of good work should become possible. How large the concentration can be at any number of points depends on the size of the country and the availability of scholars. In our situation, high concentration at a few points can only be brought about by denuding others and it is a matter for judgement as to what type of distribution will give the best results. Personally, in this matter, as in others, I am for relative dispersal. However, this need not be judged purely subjectively. We have today a high concentration of research personnel in the national laboratories; these are well equipped and have adequate resources. Further, there are many other large institutions of research and training run by government, by individual ministries or as autonomous corporations. There is a sufficient number of these in Delhi alone for the Commission to have carried out individual case studies with which to support its novel and revolutionary recommendation. I may be misinformed; but what I have heard regarding the functioning of a number of the laboratories and institutions does not support the assumption that a concentration of resources and research personnel will automatically lead to a large volume of high quality research or that the higher the concentration the more is the institution free from administrative, hierarchical or personal problems.

How will the major universities contribute to the solution of the problems highlighted by the Commission? Let us recapitulate that these problems are of a lack of interest among teachers, of financial worries, of unsatisfactory physical conditions, of hierarchical concentration of authority and of intrigues, specially present in the weaker colleges and universities; among the students they relate to unsatisfactory home conditions and earlier training, to intellectual apathy, to the medium of instruction, to financial worries, etc. There is nothing in the report of the Commission to indicate how the establishment of "major" universities will help in the solution of these problems. The only suggestion which indicates a connection between the "major" universities and others is that the major universities would supply "a goodly portion of the outstanding personnel needed for the staffs of universities, colleges" etc. It would easily take ten years for these universities to get established and to rise from their present low standards into towering excellence. After that some of their products may flow out but if experience elsewhere is any guide the outstanding among them would soon flow back into the "major" universities.

The "major" university concept has thus no relevance to an improvement of existing conditions in our universities and colleges. However, it is possible to state with some confidence that the establishment of "major" universities will, on the other hand, surely worsen these conditions. At least three important effects of this step on the other Indian Universities can be identified. Firstly, they will all suffer a diminution in the financial resources that will be available to them in future plan periods. In

view of the grandiose writing of the Commission, I would put the diminution at the minimum of an average ten per cent. More seriously they will have to put up with the loss, now and continuously afterwards, of a large number of their best men in all subjects. Thirdly, they will suffer degradation. It is one of the merits of the present Indian situation that in our various systems of ranking and privilege there is as yet no established ranking among universities. We do not suffer from the psychological strain resulting from the classification of "oxbridge" and "redbrick". I can think of no greater disservice to Indian education than the deliberate, artificial creation of this new division. I am sceptical of the heaping of resources and of official patronage having the ability to create high standards of academic excellence, but I have no doubt that immediately after their establishment teachers and students at the major universities will behave like snobs and that the others will be permanently afflicted with an inferiority complex.

I realize that the Vice-Chancellor of a University which has no obvious claims to be up-graded into a major University treads delicate ground in commenting on this subject. However, I feel it so important to protest against this monstrous idea that I am prepared to risk the misunderstanding. Also, I have hopes that Poona can stand even this strain. This city has been the centre of activities of scholars like Shankar Balkrishna Dixit, Vishwanath Kashinath Rajwade, Dr. Ketkar and Dr. Sukthankar and knows that high standards of scholarship are compatible with limited resources. I hope I shall not be considered presumptuous if I claim that the tradition of these scholars has in recent decades been maintained, to the best of their ability, by their successors. Therefore, I feel confident that this University will continue to retain the services of at least a small number of devoted scholars and maintain high standards of work, whatever its external ranking.

I should like to make it clear that the Education Commission is not particularly to blame. It was doing no more than following the current fashion. This favours "elitism" and concentration of resources, all in the name of ultimate peace and plenty. I realize that I am the dissenter in this consensus. I dissent because I believe that socio-economic progress is indivisible in a real sense and because nobody has yet explained to me the magic through which the addition of sky-scrapers at Nariman Point can help to transform the hovels, say, under Bandra bridge.

In conclusion, we must return to face the problems of poverty, of laziness and apathy, of personal and institutional jealousy and vanity to which the Education Commission has drawn our attention. During the last six months enough has happened in the University to make me believe that there is awareness of their existence in many quarters. A Committee is at present considering the question of improvement of standards of post-graduate teaching in Poona and building up better relationship between



college teachers and university departments; another committee is considering the problem of provision of a sufficient number of work-days in the year. The Academic Council after a heart-searching debate has appointed a Committee to formulate policies which are indicated by the success of coaching classes. The Executive Council has recently sanctioned creation of a temporary post of academic assistant to me and I hope with the help of this officer to probe continuously and at some depth, the problems we confront. I may, therefore, end this address with an appeal to teachers, students and all interested in education to assist and advise us, so that within a short time we are able to lay down the lines of policy along which, in due course, we shall satisfactorily transcend our present difficulties.

## RESEARCH IN SOCIAL SCIENCES\*

I SHALL make a few preliminary observations regarding the nature of studies in the field of social sciences which, I believe, have relevance to the work of this newly created Council. It is usual to draw attention to notable success of the natural scientists in obtaining control over phenomena in the external world and to contrast this with the inability of social scientists to predict events or to fashion efficient human institutions or control adequately human behavior. While accepting the basic difference it is permissible to reflect that on the assumption that broadly the same input of effort and intelligence has been made to human societies in the past in both the directions, it must be a reflection of the greater intractability of the material and of other differences in the conditions of operations in the field of social sciences. It may also be suggested that this fundamental difference in basic material and operating conditions makes it inappropriate to apply the standards and the objectives of the one to the other. It also sharply differentiates what may be called fundamental research in one field from that in other. Whereas in the natural sciences it is possible to make wide generalisation about the properties, inter-relations, groupings and operations of constituent elements which could hold over a very wide range of time and space, this cannot be done in our field. In relation to individual human psychology and much more in relation to individual's behaviour in society and in the context of institutions as also in relation to the structure and operations of human institutions and their inter-relations all our knowledge and propositions are necessarily confined essentially to particular situations. The behaviour of the individual human is shaped overwhelmingly by conventions, practices, values and beliefs which are the result of evolution of a given material and moral, literary and artistic culture. At the same time conflict, contact and intermingling of cultures is constantly going on and behaviour patterns in particular context or particular individuals or groups show greater or less flexibility. The structure and operations of institutions, of institutional life and their actions and reactions on individuals in society are subjects of obviously even greater complexity, all of which emphasises the space-time context of all propositions, statements and knowledge in our field.

\* Address in the capacity of the Chairman of the ICSSR at the Inaugural Function of the Indian Council of Social Science Research, New Delhi, May 12, 1969.

Inevitably these characteristics of our material shape our objectives, as also the level at which we conduct our operations. Our material appears almost to preclude duties that are fundamental in the sense that all our studies have necessarily to be related to and bounded by particular contexts and situations. When one uses terms like the family, government, market or revolution, one realises what diverse orders of phenomena have been historically covered by them and how even contemporaneously the concept or the phenomenon is undergoing change. This inability to say anything of lasting relevance in relation to concepts, institution or behaviour patterns necessarily limits the range of possibilities and objectives of the social scientist and orient him to the specific and the particular. The compulsion to treat his environment and the material available to him as one which on the one hand is of special interest to him and in relation to which he has special advantage for study and on the other hand that it is in flux and liable to change colours greatly the attitudes and methods of the scholar in our field. To understand the organisation and working of social institutions and the actions and reactions of individuals in and towards them, to identify origins and drives of what may be termed social forces, the mechanics or the etiology of social change and to appreciate the possibilities and limitations of deliberately defining goals or directing change, become in the context, the obvious objectives of social studies. And the inescapable intermingling with them, through the personalities of the scientist and his material, of current values, beliefs and ideologies also circumscribe methods and procedures and define the limitations on their operations. This might seem to explain why the social sciences are often called the policy sciences and why social studies are overwhelmingly oriented, directly or indirectly, towards an understanding of our environment and towards some operational goal of change or otherwise, specific or general, within it. Our necessary confinement to the immediate on the near in time and space and the scientists' involvement in the environment are responsible for this situation.

I realise that currently we divide ourselves in certain disciplines into tool-makers, and tool-users; the one are the theoreticians and the other operators in the applied field. However, our material imposes limitations even on the tool-makers and they are constantly facing such dilemmas as the extent of realism needed in a model. As useful transition to application is closely related to this realism we are driven back to the particular to a large extent. On the other hand, there is also the interesting development of the introduction of a great deal of psychological refinement in theorising without perhaps adequately realising that such refinement necessarily assumes a complex cultural and institutional environment.

From the above description of the conditions of our operations, I would like to draw for consideration of members of this Council for framing its future programme a few corollaries. Our programmes of study, whether

theoretical or applied, would be largely concentrated on the contemporary Indian scene and the problems exhibited by it. One of the most important contributions our Council could make would be to devise a comprehensive scheme and map out the contemporary social context so that in the first instance, at least conceptually the various aspects, inter-relations and problems may be identified and the way prepared for defining programmes and priorities for our initial survey. This in itself is a highly complex and laborious task in which the Council should, as in everything else, act chiefly as the initiator and coordinator and invite and obtain the cooperation of the entire body of social scientists and their organisations.

Secondly, I would emphasise the great importance of what has been termed the inter-disciplinary aspect of our operations. Even more than in natural sciences social phenomena not only are incapable of being subdivided in neat separate fields, they cannot even be studied or observed in less complex forms through devices such as that of controlled experiment. Therefore, all field studies involve some admixture of related disciplines and even theoretical models cannot do without them. Informally, through evolution of rule of thumb practices, a certain amount of inter-disciplinary collaboration is being arranged for in India at present. But this is neither fully thought out nor efficient. This Council is obviously well-fitted to fill the gap successfully.

It follows that research activity has to be organised at various levels in all parts of the country and that this has to be coordinated initially at an appropriate regional level. Scouting for an encouragement of talent within as well as without the academic community and the organisation of nuclei particularly in relation to storage of data and affording facilities for guidance in inter-disciplinary work are some of the organisational tasks that the Council will have to tackle. My main emphasis today is that our task has to be visualised as having manifold aspects and as operating at a number of levels.

Thirdly, while a certain amount of progress has been made in some fields in India in field studies and in descriptive material, I believe, that in terms of concepts, abstractions and theorising appropriate to our situation little has been attempted. In this field we appear yet content to borrow. I have nothing against intelligent borrowing. However, in my view because of the great peculiarities of our situation the results of such borrowing cannot prove, have not proved, very satisfactory. Even in the recently much cultivated field of economic growth and development we do not appear to have sufficiently rigorous abstract frames to support our practical judgements or hunches.

Fourthly and lastly, I shall venture on a proposition which may prove somewhat controversial. This is that in view of the materials in our field it is, to say the least, of great advantage to the student to have some acquaintance with and some experience of active operations in the field.

Because the material is varied and in constant flux and because the conjuncture and with them operational conditions and responses are also being continuously modified, all data and historical descriptions — and all descriptions become necessarily historical — have to be interpreted and allowances made for modifications. Moreover, because of the complexity of social and institutional operations and relationships descriptions are often inadequate. For these and other reasons it would be a great advantage to the academic students and researchers to have some background of actual experience. This can at best be limited and its effective use in interpretative judgement would depend a great deal on the intelligence and circumspection of the student. However, at least for the more competent such experience should prove a valuable asset. Unfortunately in our country transfers from one field of activity to another are not easy and when they occur they are usually one-way. The Council would have made a great contribution both to academic and to practical affairs if it would make it easier for academicians to take part, temporarily, in active affairs and return to their studies enriched by the experience.

Another reason for pleading for some acquaintance of the student with practical operations is the necessary dependence of theoretical progress and innovative generalisations in our field on innovations and experiments in actual public and institutions' life. A very large part of the work of those who build general systems in our field is concerned with framing a consistent explanation of seeming actual operations. For the most part theory follows practice with us and even the path-breakers and innovators among us have built on at least stray or occasional practical experimentation. Undoubtedly by giving a broader frame to isolated practice or by making broad generalisations as to policy these innovators have fully brought out the essence and greatly widened the scope in application of the principle involved which may have been only faintly or not at all appreciated by the practical innovator. Whatever that may be, the importance for innovative formulations in social sciences of at least selective knowledge of what is happening in practice has to be appreciated. Also, the contacts I am advocating would pave the way for a two-way exchange so that some students may also be enabled to improve practice.

My function, as I conceive it, is to start a relevant and fruitful discussion and I hope I have, as usual, said enough to provoke members to make important initial and constructive contributions which will help to lay truly the foundations of the future work of the Council.

## UNIFICATION OF MAHARASHTRA \*

IN considering the case for the unification of Maharashtra it is necessary to begin with some observations on the nature and constitution of federal governments. It has been pointed out that federalism is the result of a compromise between the desire to unite and the desire to remain separate within a political state. The factors making for separation may be varied. A sense of separateness may arise out of geographic or economic divisions or divergence relating to race, religion, language, etc. A number of units which may be aware of separate identities because of any or all of these factors may yet wish to form a union to reap the advantages flowing from a larger political or economic unit. The desire for the formation of a union might flow from a feeling of commonness of either civilization or history, of religion or nationality which transcends the more detailed differences keeping the units separate; and this desire might be reinforced by consideration of the political and economic advantages resulting from a union. The larger the political unit the stronger is it likely to prove in defence and the more weight will it carry in the general body of nations. Also a larger unit leads to greater economic self-sufficiency which makes for strength not only in defence but also in economic bargaining. A larger unit can also exploit the internal advantages of large-scale administration; and with large programmes of economic planning or social security the advantages of a large unit become specially insistent. In federalism the advantages flowing from a large area of political and economic administration are reconciled with the desire of units to maintain separate entity and the need to guard local and regional interests. The division into units in a federation, it will thus be seen, is based primarily on historical, political or geographical factors and is not to be confused with the division into local areas for purposes of administrative convenience. A unitary government has undoubtedly many advantages but where for reasons of the need to bring a diversity of elements together a unitary government is out of account, federation has obviously to be adopted.

Few would advocate the adoption of the unitary principle for the constitution of an Indian government. Almost every factor that is found to create a sense of separateness is to be found definitely within the vast territories of this country. The economic and geographic regions are many and distinct; and there are marked differences of race, language and reli-

\* Published by Samyukta Maharashtra Parishad, Poona, 1946, pp. 1-11.

gion. In spite, however, of these differences, the vast bulk of at least the non-Muslim peoples have such a feeling of commonness of tradition and civilization and so realise the advantages and political and economic unity that they are strongly in favour of the formation of Indian union. In these circumstances, the demarcation of appropriate federating units that will serve to build up a strong Indian Union is a task of great and immediate importance with us.

In a large number of federations formed in the past, the states, the provinces or other federating units had ordinarily a long history of politically separate existence before the formation of the federation. Such was the case with the states of North America, the cantons of Switzerland, provinces of Canada or the states of Australia. These federations were therefore not faced with the problem of the formation of federating units. In India the problem is acute because the federating act is being performed not by units previously independent but is taking place on the basis of provinces which were formed by historical accident and have been mere administrative divisions of a highly centralised unitary government. These provincial units have no meaning in the new context. They cannot be the federating units because a number of them are of such composite character that they form small potential federations in themselves. Therefore, if the work of the Assembly forming the constitution of an Indian federation is to proceed on significant and durable lines, the attempt to form the federating unit must precede and not follow the finalizing of the constitution of the Union. It is only when the members of the Assembly are organized into groups which represent homogeneous communities and peoples having similar interests in common that the real problem of reconciling separate interests with a unified central government will be duly appreciated and solved.

If the formation of the federating units is thus urgent as a preliminary step, a basis must be indicated on which the quest of the federating units can be fruitfully conducted. The basis is given by the nature of the problem of federalism sketched above. A federation is the result of the coming together of units who are conscious of separate identity; the federating units must therefore be formed of regions, the peoples of which are conscious of separate identity, i.e. as distinct from their neighbours, and *per contra* are conscious of a feeling of unity among themselves. A sense of oneness among peoples because of common sense of history and tradition, race, language or religion will obviously give the basis of the federating units. Our request is for an area where homogeneity with reference to political action and political allegiance is found existent. Difference in geographical factors or in economic conditions does not ordinarily vitiate a sense of political unity and within even a large political unit it is always possible to provide for regional differences by division into administrative areas or by the introduction of the principle of local autonomy.

On the basis of the test given above the linguistic principle will be seen to yield the proper limits for political units especially in Peninsular India. That the federating units should be unilingual might be easily taken for granted. A variety of languages would make democratic governments very difficult in a unit; and if on no other ground, the creation of new federating units must provide for the people in the federating unit speaking overwhelmingly one language. Given the language test, the regions where Marathi is the dominant tongue would yield one large contiguous unit which should be the federating unit for this area. Within the area itself there are also no factors which indicate any smaller federating units being formed. The primary federating unit should obviously be as large as political homogeneity permits. This makes for ease in the working not only of the Union but is advantageous also from the point of view of the federating unit itself. Success of schemes of economic planning and social welfare as well as the possession of political strength depends on the largeness of territory and resources commanded by a political unit. In a federation where large powers in respect of economic matters are vested in the federating unit an unnecessary splitting of areas in the federating units is highly wasteful. The influence that a people will wield in the affairs of the Union will also depend to a considerable extent on their economic and political strength. A set of small units will naturally not command the same position as one large unit and, therefore, the largest possible homogeneous unit should everywhere be formed into the federating unit.

On examining the specific question of Maharashtra, it is easy to show that the whole region inhabited by people speaking Marathi should form one federating unit. More than any other region of unilingual people in India, unified Maharashtra will be found to have complete political homogeneity. Not only would be the language spoken in this tract be one but the literary traditions of all the people would be the same. There have been no rigid barriers in the past in any kind of contact over the whole territory of this unified Maharashtra. In social structure the similarity among the most distant parts is remarkable. The three main classes of the people of Maharashtra, Marathas, Mahars and Brahmins, are spread more or less uniformly over all this territory and among all these different caste groups there is not only a feeling of oneness but also a considerable interchange in social relationship. The religious and cultural traditions of the people of the entire tract are the same. The saints they revere, the heroes they worship, the historical memories they treasure are all the same. Within no sphere of social or cultural life could any definite line of demarcation be drawn in the territory of unified Maharashtra and there is no particular part of it which, as a whole, does not share in the sense of commonness. This is not only so today but seems to have always been the case through historical times. Therefore, the political allegiance of a unified Maha-



rashtra will be firmly grounded in the sentiments of the people and in their feeling of unity.

There is no sharp division, even geographical or economic, in the area. The one region in the area of unified Maharashtra which constitutes a separate geographical entity by itself is, of course, the region of the Konkan. The geographical features and the economy of the Konkan resulting therefrom are undoubtedly distinct from those of the rest of Maharashtra. However, nobody has on that account ever suggested that the Konkan should form a separate political unit. As a matter of fact for at least the last, 1,000 years the Konkan has never formed a separate unit by itself but has always been unified with parts of the region of Maharashtra above the ghats. For the rest of Maharashtra there are no sharp economic or geographical features dividing one region from another. There are also no divergences in economic interests in the modern sense. There has been no special concentration of industry in any one part and one special dependence on a single product which might result in specialised interest for a particular region. If one examines, for example, the existing administrative divisions between various parts of Maharashtra, one finds that the lines of these divisions are utterly meaningless. The economic or social or cultural life in Kolhapur and other states of the Southern Maratha country are not divergent from those of areas included in British districts surrounding them. The economy of Berar has more in common with that of Khandesh than with the economy of the districts of Bhandara or Chanda. And the Marathwada area in the Nizam's Dominions forms together with the districts of Ahmednagar, Sholapur and Khandesh on the one hand and Berar on the other one typical continuous block of the Deccan Peninsula. The division of these territories in different administrations is certainly neither advantageous for the whole nor for any part thereof. If an attempt were to be made to form more than one federating unit from among the whole area it would merely result in a disastrous weakening of the forces of Maharashtra in the Indian Union and it would not have any special meaning in the context of any social, cultural or economic feature.

It has been sometimes alleged that incorporating a whole area which is large into one political unit might result in the dominance over the whole area of a particular point of view and the neglect of many local interests. It has also been said that the area which is economically better off within the larger unit might feel that its interest was being sacrificed by such a union. It might, of course, be doubted whether it is wise for any particular area professing to be part of one whole people to set up a claim for not sharing its wealth with co-citizens. India and other poor countries in the world today are putting forward a plea for special treatment by richer nations of the world. In such a situation a purely sectional view in a small region is to be deplored. However that may be, there is no region today within Maharashtra that is to a special degree richer than others. North

Konkan is the only area which is remarkably poorer than other regions. For the rest, regions of agricultural prosperity such as Kolhapur and the South Satara district, the areas of the Deccan Canals, part of Khandesh, Berar and Nagpur divisions are all fairly evenly dispersed. It is no longer true to say, as it was perhaps true during the days of boom in cotton prices, that Berar is a specially rich region; and as to the possibility of future development a combination of hydro-electric and irrigation development has more in store for the districts of the Bombay-Deccan than for the Nagpur-Berar area. Apart, therefore, from the cogency of the plea of a richly endowed area trying to get a special treatment for itself there are in fact no such areas within unified Maharashtra. With regard to the plea of dominance of any particular point of view or neglect of local interests it is obvious that such fears can be provided against in advance. It is difficult to believe that in unified Maharashtra, with franchise and political power evenly spread, any one region will specially dominate others. The conditions of political life are more or less similar throughout this tract and its social and economic problems are closely similar. The bulk of the rural peasantry is similar in disposition throughout the area and political power in a unified Maharashtra will overwhelmingly pass into the hands of their representatives. The nature of such representation, their political programme or methods are not likely to differ from tract to tract. However, it would still be impossible to provide for machinery by which any special regional interests could be properly safeguarded. The problem of these devices leads us to considerations which will be common to all parts of India. The possibility of forming sub-provinces and autonomous districts or cities within each federating unit must be contemplated. Such extension of the area and concepts of local self-government is in a line with our political development and the genius of our people. The details of such devices must, however, be considered in connection not with the formation of particular federating units but as a part of the entire constitutional structure.

## THE SCOPE OF UNION SUBJECTS\*

THE subjects dealt with by the Union are specifically mentioned and it is expressly provided that all subjects other than the Union subjects and all the residuary powers should vest in the Provinces. The resulting scheme of the distribution of powers is like that in Australia and the U.S.A. This method leaves to the Provinces a mass of exclusive powers which could not be invaded, or interfered with by the Union authority and also leaves to them in addition certain concurrent powers as to matters within the Union's sphere, to pass laws not inconsistent with the Union laws. The strength of the Union will depend on the total of the powers given to it under each of the subjects. In order to assess this total, the likely scope of powers in each subject may be illustrated with reference to their detailed enumeration given in the constitutions of other federations and in the Government of India Act, 1935.

### *Foreign Affairs*

Three items from the 7th Schedule, list one, *i.e.* The Federal Legislative List in the Government of India Act, 1935, would obviously fall under this head. These are numbers<sup>1</sup> 3, 17 and 49. With some stretching of the meaning of the terms, items<sup>2</sup> 19 and 44 could perhaps be also included. The powers mentioned in this connexion in the Constitutions of the U.S.A., Canada and Australia and the more recent federal Constitutions of the U.S.S.R. and Brazil may further be indicated. In the U.S.A. Constitution

\* *India Quarterly*, Vol. II, No. 4, October-December, 1946, pp. 328-340.

This is a section of a study on the Indian Constitutional Problem being prepared by the Gokhale Institute of Politics and Economics of which Dr. Gadgil is the Director.

- <sup>1</sup> 3. External Affairs; the implementing of treaties and agreements with other countries; extradition, including the surrender of criminals and accused persons to parts of His Majesty's dominions outside India.
17. Admission into, and emigration and expulsion from, India, including in relation thereto the regulation of the movements in India of persons who are not British subjects domiciled in India, subjects of any Federated State, or British subjects domiciled in the United Kingdom; pilgrimages to places beyond India.
49. Naturalisation.
- <sup>2</sup> 19. Import and export across customs frontiers as defined by the Federal Government.
44. Duties of customs, including export duties.

the powers given to the Congress include powers 'to regulate commerce with foreign nations', 'to establish a uniform rule of naturalization', 'to define and punish piracies and felonies committed on the high seas and offences against the law of nations'; these might all be supposed to fall within foreign affairs. Section 91 of the British North America Act, 1867, refers only to one subject 'naturalization and aliens' which would definitely be connected with Foreign Affairs. Section 51 of the Commonwealth of Australia Constitution Act contains, however, a much larger number of items, and these are as follows: External Affairs, Trade and Commerce with other countries, bounties on the export of goods, fisheries in Australian waters beyond territorial limits, naturalization and aliens, foreign corporations, immigration, emigration and influx of criminals.

In the Constitution of the U.S.S.R., the following find a place among the powers of the Union: the representation of the Union in international relations, the conclusion and ratification of treaties with other States, foreign trade on the basis of a State monopoly, laws on the rights of foreigners.

The Brazilian Constitution enumerates the items thus: to maintain relations with foreign countries, to nominate members of the diplomatic and consular corps, to enter into treaties and international conventions; to decide definitely regarding the limits of national territory, the naturalization, entry and departure from national territory, immigration and emigration, passports, expulsion of foreigners, extradition, foreign commerce, exchange and transfer of funds abroad.

A study of these lists shows that a number of items obviously fall within the sphere of foreign affairs. Firstly, there is the representation of the country abroad and the negotiation of treaties and agreements with other powers. Secondly, all questions of immigration and emigration and those connected with naturalization and aliens. Thirdly, there is jurisdiction beyond territorial limits and lastly questions connected with foreign commerce and with the exchange and transfer of funds abroad. Little difficulty would arise regarding the propriety of inclusion or the interpretation of the scope of the first three.

The nature of the power in respect of foreign commerce etc. must be, however, examined in some detail. No direct power is given to the Union in respect of foreign commerce or foreign exchange. This does not, however, mean that the power of regulating foreign commerce or exchange is denied to it so long as and to the extent that it could be proved that the subject 'foreign affairs' necessarily included such power. In this connexion no importance could be attached to the fact that in the constitutions of other federations power over foreign commerce is specifically mentioned apart from foreign or external affairs. The enumeration of powers in these constitutions is not made strictly in terms of mutually exclusive categories. Also, there are examples where foreign commerce is not mentioned apart from foreign relations and where the one was obviously included in the

other. Article 6 of the German Constitution of 1919 enumerates the sole legislative powers of the Federal Government. 'Foreign Relations' heads the list in this article, which does not, however, contain any specific reference to foreign commerce, though it mentions separately the Customs Department.

'Foreign affairs', it should be noticed, is not a single subject like, say, 'agriculture', or even a single group of subjects like 'communications'. It is a comprehensive class and includes all subjects which have an aspect of relations with other countries and includes them only in the context of that relation. 'Foreign affairs' is very wide and covers all relations with the outside world and it necessarily includes all external economic relations. No government other than the Union Government would be competent to regulate external economic relations and the governments of groups or provinces could not directly enter, for example, into trade agreements with other countries. Any treaty, compact or convention, whatever its nature, with any foreign country or international authority, could be entered into only by the Union Government. All obligations accepted on behalf of the whole or any part of the territory comprised within the Union would be accepted by the Government of the Union. All legislative or administrative acts which seek to regulate the interests, connexions or affairs of Indian Governments or national abroad would be performed only by the Union Government. Territories or persons, goods, services or funds may all become affected by the impact of foreign relations and to the extent that this happens they would fall within the jurisdiction of the Union. There is, therefore, little doubt that if regulation is to be attempted, international obligations undertaken, or the terms of exchanges settled regarding any foreign commerce in commodities or in services, in money or in credit the Union Government would be the only competent authority in this behalf. In acting within this sphere the Union Government may have, for a variety of purposes, previously to consult provincial or group governments or act in constant collaboration with them. The practical need to do this cannot, however, be taken to affect its absolute powers within the field of foreign affairs, including external economic relations.

The position in regard to the customs tariff is not equally clear. It might be held that the levy of any duty on an article of export or import affected external economic relations and was, therefore, a part of foreign affairs. On the other hand, it might be argued that the subject included only that aspect of foreign commerce which was affected by relations entered into or agreements made with foreign countries and did not, therefore, embrace the whole field of customs duties. Nothing in the proposals of the Cabinet Delegation indicates that a custom frontier between groups or provinces is ruled out by the scheme. In almost all federal constitutions the regulation of inter-state commerce is, equally with the commerce with foreign countries, an attribute of the Federal Authority. No mention of inter-state commerce

is made in the proposals of the Cabinet Delegation. It is, therefore, obviously not within the competence of the proposed Indian Union. A province or a group of provinces would then be at full liberty to impose duties or restrictions on trade between provinces or between groups. Would duties on imports and exports necessarily fall completely within the sphere of the Union's jurisdiction in so far as commerce with particular countries is carried on under definite treaties or agreements with them, the competence of the Union Government would be unquestioned. Group or provincial governments could not have powers to alter these terms. But in the sphere within which international trade agreements did not operate, it might be argued, the provincial or group governments would have the power to levy or vary the rates of import or export duties.

The position regarding the regulation of currency is similarly ambiguous. Representation on an international monetary fund or bank, would, no doubt, rest with the Union and the fixation of rates of exchange and agreements with other countries relating to them would obviously fall only within the competence of the Union Government. All direction and regulation of the transfer of funds abroad would also rest with the Union. This should prove sufficient to give to the Union, authority and power relating to the issue and management of currency for the country as a whole. However, it would be still possible for a province or a group government to issue currency, including paper currency, of its own, for circulation within its own area of jurisdiction, and the regulation of banking would completely rest with these governments. Because of this, the monetary authority of the Union might find it impossible to implement all its decisions fully throughout the territory of the Union except with the willing co-operation of province and group authorities.

Another question which is relevant to raise here but which is somewhat difficult to decide is the regulation of the entry of foreign capital. Obviously no group or provincial government could itself raise a loan abroad or enter into any economic or financial agreement or commitment with foreign governments or individuals. Also, the regulation of foreign corporations might fall distinctly within the Union's sphere. It is doubtful, on the other hand, whether the regulation of the participation of foreigners in corporations formed within the territories of the groups and the provinces could be all done by the Union Government. If it is not possible to close this loophole the operations and the entry into the country of foreign capital would be subject to varying conditions from region to region and might lead to some measure of competitive legislation. It is likely that an overall regulation of transfer of capital between country and country might come about as a result of international agreements and the operations of international organizations. In this case, the sphere within which group or provincial governments have the liberty to act would be severely restricted. On the whole, it might be said that through its power over foreign affairs

the Union Government might be able to influence, at least, indirectly an important sector of economic life and this sector would be the larger and the more influential, the more pervading and inclusive became the operations of international economic organizations.

Another important issue in connexion with the scope of foreign affairs is the extent of the legislative power given to the Union because of the power to enter into treaties and agreements with other countries. In discussing this subject it would be best to start with a threefold classification of authorities with differing competence that might be contemplated in connexion with constitutions of federal governments: (i) authorities competent to legislate upon a given subject for municipal purposes; (ii) an authority competent to legislate on the same subject for giving effect to international engagements; and (iii) an authority competent to undertake an international engagement.<sup>3</sup>

We are not concerned with the distinction between (ii) and (iii). It is agreed that the ratification of a treaty by the authority competent in this behalf does not by itself alter the law of the land and that, for this purpose, the competent legislature must act appropriately. The division of functions as between (ii) and (iii) may occur within even a Unitary Constitution and is not peculiar to federations.<sup>4</sup>

For our purpose the significant difference is that between (i) and (ii) and it is necessary to find whether in the proposed Indian Union the Union legislature could be placed in the category classified as (ii) above. Reference may first be made to the position in other federal constitutions.

The position in the U.S.A. appears clear. The treaty-making power of the U.S.A. Government enables it to enter into any field of legislation to give effect to treaties irrespective of the division of powers between the Federation and the states in the Constitution. However, this is the result not of any interpretation of the power of the Congress over foreign affairs but is directly and separately provided for in the Constitution itself. Article VI of the U.S.A. Constitution lays down that 'all treaties made, or which shall be made, under the authority of the United States shall be the supreme law of the land.' The U.S.A. example would thus not apply to any constitution in which no such specific provision is included. The special responsibility of the U.S.A. Senate in respect of foreign affairs and treaties is also a significant feature of the federal constitution of that country. As regards Canada Section 132 of the British North America Act (1867) provided that the Parliament and Government of Canada shall have all powers necessary for performing the treaty obligations of Canada arising under treaties between the Empire and foreign countries. So long as the Dominion

<sup>3</sup> Cf. C. W. Jenks, 'Constitutional Capacity of Canada to Give Effect to International Labour Conventions', I and II, *Journal of Comparative Legislation and International Law*, Vols. 16, 17, 1934-35.

<sup>4</sup> Cf. Keith : *Governments of the British Empire*, 1935, p. 113.

Government acted under these powers it was held to be competent to enter the sphere of even exclusive provincial legislation to give effect to treaties. However, when Canada entered into treaty obligations with foreign countries directly, Section 132 was no longer held to apply. In the changed situation the Privy Council ruled that in spite of the Dominion Government possessing treaty-making powers and also the general powers for making laws for the peace, order and good government of Canada, 'the legislative powers remain distributed'. It added:

"If in the exercise of her new functions derived from her new international status Canada incurs obligations, they must, so far as legislation is concerned, when they deal with the provincial class of subjects, be dealt with by the totality of powers, in other words by co-operation between the Dominion and the Provinces".<sup>5</sup>

In Australia, the Commonwealth Parliament has legislative powers in respect to external affairs and no special provision is made in the Constitution regarding giving effect to obligations arising out of treaties. The extent of the power thus vested in the Commonwealth Parliament has not yet been fully defined by a judicial decision. In one case, however, a minority of the judges of the Supreme Court were prepared to hold that the Commonwealth has powers to implement through legislation treaties and conventions under its authority as to external affairs. The majority of the Court, however, did not commit itself to this view and even the minority insisted that in order to be valid, under this power, the Acts passed must exactly follow the treaty or conventions and that any deviation would be fatal.

It was perhaps, in view of this difficulty, experienced elsewhere that the Government of India Act 1935 attempted to define clearly the effect of the treaty-making power. The item 'the implementing of treaties and agreements with other countries' is included in the Federal Legislative List of the 1935 Act. However, by a special Section in the same Act the effect of this power was strictly defined and it was laid down that the 'Federal Legislature shall not by reason only of the entry in the Federal Legislative List relating to the implementing of treaties and agreements with other countries have power to make any law for any Province except with the previous consent of the Governor or for a Federated State except with the previous consent of the Ruler thereof'.<sup>6</sup> It has been pointed out that because of the wording of sub-section (30) of this Section the restrictive effect of the provision was not considerable, as the concurrent powers of the Federal authorities were fairly wide under the 1935 Act.<sup>7</sup>

<sup>5</sup> Attorney-General for Canada v. Attorney-General for Ontario and others, 1937.

<sup>6</sup> Sec. 106(I).

<sup>7</sup> Sec. S. K. Das : 'Canadian Experience and the treaty-making power in the Government of India Act 1935', *Journal of Comparative Legislation and International Law*, Vol. 20, 1938.



In the Constitution of the Indian Union no such large list of wide concurrent powers is expected to find a place. Therefore, if a provision similar to that of Section 106 of the 1935 Act is included in the new constitution no extension of the legislative sphere of the Union will take place because of the treaty-making powers vested in it.

To sum up, treaty-making powers can be relied upon to bring within the competence of Federal Governments all legislation arising out of treaties, agreements, etc., only if special provisions exist in the constitution such as those of Act 8 of the U.S.A. Constitution or Section 132 of the British North America Act. In the absence of such provision the constitutional division of powers between the federal and provincial or state authorities may be said to define the limit of legislative competence in respect of agreements with foreign countries also. In view of the existence of Section 106 in the Government of India Act 1935, it is expected that those who favour a strict delimitation of the powers of the Union will insist on a similar provision being included in the new constitution and thus settle the question beyond doubt.

The representation of India abroad will undoubtedly lie with the Union under the proposed scheme, but, outside the sphere of Union subjects, the policies that the Indian representatives would expound and the decisions they would agree to would depend on the instructions not solely or chiefly of the Government of the Union but of those of the governments of various groups. The Indian delegation to an international food conference, for example, might even have to expound not one but two or three sets of different policies. The ratification of international conventions such as those relating to labour could also not be guaranteed in advance on the advice only of the Union Government.

### *Defence*

Under defence would be included the following items in the list of federal subjects of the 7th Schedule of the 1935 Act: 1, 2, 29, 30 and 39.<sup>a</sup>

1. His Majesty's naval, military and air force borne on the Indian establishment and any other armed force raised in India by the Crown, not being forces raised for employment in Indian States or military or armed police maintained by Provincial Governments; any armed forces which are not forces of His Majesty but are attached to or operating with any of His Majesty's naval, military or air forces borne on the Indian establishment; central intelligence bureau: preventive detention in British India for reasons of State connected with defence, external affairs, or the discharge of the functions of the Crown in its relations with Indian States.
2. Naval, military and air force works; local self-government in cantonment areas (not being cantonment areas of Indian State troops), the regulation of house accommodation in such areas, within British India, the delimitation of such areas.
29. Arms; firearms; ammunition.
30. Explosives.

The defence powers of all federations generally include the powers to declare war and make peace and the powers to raise, maintain and control all kinds of arms. The extent to which defence is held to include certain other things might be illustrated by reference to the wording of the powers in some federal constitutions. Section 51 of the Australian Act lists the following items: 'the naval and military defence of the Commonwealth and the several states, the control of the forces to execute and maintain the laws of the Commonwealth.' Section 119 of the same Act lays down that 'the commonwealth shall protect every state against invasion and, on the application of the Executive Government of the state against domestic violence.' The Constitution of the U.S.A. gives powers to Congress 'to provide for calling forth the militia to execute laws of the Union, to suppress insurrections and repel invasions,' and also to exercise exclusive legislation 'over all places purchased by the consent of the legislature of the state in which the same shall be for the erection of forts, magazines, arsenals, dockyards and other needful buildings.' The Brazilian Constitution mentions amongst powers of the Union 'to authorize the production and to supervise the commerce of war materials of whatever nature,' and 'the manufacture and commerce of arms, munitions and explosives.' The immediate scope of the powers of defence is fairly well defined. The chief directions of its possible extension are (i) a sphere connected with internal security, (ii) control over areas where activities connected with defence works are carried on, and (iii) the manufacture of and commerce in commodities intimately connected with defence operations. The field of defence has widened in all these directions in modern times because of the extension of the areas of operation of all types of arms and the spheres of productive activity concerned with defence operations.

The general responsibility for defence and security of a federal government has been held in all federations to vest it with very wide powers in times of war. As early as 1916, the Supreme Court of the Australian Commonwealth upheld the power of the Commonwealth Government to regulate, during times of war, economic activity in very considerable detail under its general power of defence. During the last war also defence powers have been held to be very wide by judicial interpretation; and though the courts have not been entirely uncritical almost any regulation that could be presumed to have some connexion with the conduct of war has been held to fall within the purview of this power. The responsibility for

39. Extension of the powers and jurisdiction of members of a police force belonging to any part of British India to any area in another Governor's Province or Chief Commissioner's Province, but not so as to enable the police of one part to exercise powers and jurisdiction elsewhere without the consent of the Government of the Province or the Chief Commissioner, as the case may be. Extension of the powers and jurisdiction of members of a police force belonging to any unit to railway areas outside that unit.

defence would thus give the Union Government a very wide sphere of operation during the actual course of a war. On the other hand, it is equally true that the scope of these powers is held to be wide only during times of war; during times of peace this power has always been interpreted narrowly. In modern times the sphere of the Union Government because of the large number and variety of bases required for defence purposes and because of many types of production connected with defence operations might be much wider than before. However, it could not cover but a small fraction of the total area of economic activity in times of peace.

### *Communications*

With communications we come to a subject given to the Indian Union which has a content much wider than that included in the powers of any other federal authority. Under the heading could be included not only a great many of the items in list one of Schedule 7 of the 1935 Act such as 7, 18, 22 to 26,<sup>9</sup> but some also in list 2, for example, 18, and in list 3, for example, 20 and 32.<sup>10</sup> Through its power over this subject the Union Government would control rail and road communications, navigation and shipping, post and telegraphs, airways, and airships, beacons, buoys, lighthouses, custom houses, warehouses, ports and harbours and all other incidentals like port, river and railway police, connected with their maintenance. This

#### <sup>9</sup> *List I.*

7. Posts and telegraphs, including telephones, wireless broadcasting and other like forms of communication; Post Office Savings Bank.
18. Post quarantine; seamen's and marine hospitals, and hospitals connected with port quarantine.
22. Major ports, that is to say, the declaration and delimitation of such ports, and the constitution and powers of Port Authorities therein.
23. Fishing and fisheries beyond territorial waters.
24. Aircraft and air navigation; the provision of aerodromes; regulation and organization of air traffic and of aerodromes.
25. Lighthouses, including lightships, beacons and other provision for the safety of shipping and aircraft.
26. Carriage of passengers and goods by sea or by air.

#### <sup>10</sup> *List II.*

18. Communications, that is to say, roads, bridges, ferries, and other means of communication not specified in List I; minor railways subject to the provisions of List I with respect to such railways; municipal tramways; ropeways; inland waterways and traffic thereon subject to the provisions of List III with regard to such waterways; ports, subject to the provisions in List I with regard to major ports vehicles other than mechanically propelled vehicles.

#### *List III.*

20. Mechanically propelled vehicles.
32. Shipping and navigation on inland waterways as regards mechanically propelled vessels, and the rule of the road on such waterways; carriage of passengers and goods on inland waterways.

is undoubtedly a very large list of subjects and a vigorous and active Union Government might be able to help economic development in most parts of the country through a well-planned policy relating to the facilities for transport and the rates charged for them. However, it must be remembered, that the influence of a communications policy on economic development would be largely indirect. Transport plays an important part in plans of production and distribution, and the transport authority can materially help or hinder the success of general economic planning. Economic controls or development plans cannot, however, be initiated from the transport end. Further, while all other economic activity is within the sphere of the provinces and only communications are controlled by the Union, Central policy would necessarily be colourless. It could not easily adapt itself to all the varying aims and methods of the differing group or provincial policies and it would have to avoid giving the impression of discriminating between the different means of transport or types of commercial activity or between areas.

#### *Finance*

Finance for the conduct of all these powers is not a separate power but is included in the ambiguous phrase 'and should have the powers necessary to raise the finances required for the above subjects.' The justification for this phrase is to be found in an important difference of opinion between the League and the Congress. The former maintained that the Union should have no taxing powers of its own but should raise resources, presumably, by contributions from provinces. The Congress leaders insisted that the Union should definitely control Customs and should have the power to raise revenues in its own right. If the point of view of the League is accepted the Indian Union would be no more than a confederation. It would leave India in the position occupied by the states of America before the adoption of their present constitution. However, even if the Union is ultimately vested with taxing powers it is unlikely that these powers would be wide.

In most other federations the power of taxation given to federal authorities is either very wide or is absolute, *i.e.* without any qualification or limitation being imposed on it. It is ordinarily not hedged in by reference to either limited and specific purposes or to special sources of revenue. The U.S.A. constitution gives power to the Congress 'to lay and collect taxes, duties, imposts, and excises, to pay the debts and provide for the common defence and general welfare of the United States.' The Canadian Constitution gives the Dominion Parliament authority for 'the raising of money by any mode or system of taxation'. The Commonwealth of Australia Constitution Act gives to the Parliament powers of taxation with only the qualification 'but so as not to discriminate between States or parts of States.' The U.S.S.R. has amongst the powers of the Supreme Council 'the approval of the single budget of the U.S.S.R. and also of the taxes and revenues which serve to form the budgets of the Union republics and localities.'

In the Brazilian Constitution there is an attempt at a distribution of sources of revenue. Certain important broad heads are given to the federal government, while a number of subordinate tax resources are reserved to the states. The Government of India Act of 1935 also follows the method of division of revenue resources.

It is not clear whether a proposal for vesting the Indian Union with general unlimited taxing power will prove acceptable. There need, however, be no objection to defining clearly the tax sources allotted to the Union. As a matter of fact it may be found convenient, in the Indian Union, to divide as far as possible, heads of revenue between the federation and the provincial governments. Once, however, a tax-power rests with an authority its discretion to make use of it should not be allowed to be questioned as a constitutional issue.

The Union is to be vested with powers to raise finances required for the purposes of the three subjects: Foreign Affairs, Defence and Communications that are allotted to it. This manner of stating the power to raise finance necessarily imposes an important limitation on the authority of the Union; and the effects of this may be far-reaching; the Union has obviously no powers to raise finance not required for the above purposes. All taxing acts as well as all spending must be justified with reference to the three Union subjects. Only the U.S.A. Constitution among the important federal constitutions, links the power to tax with the objective of expenditure. These objectives in the U.S.A. Constitution are very broadly stated. They are 'to pay the debts', 'to provide for the common defence and general welfare'. The last of these, 'general welfare', is so comprehensive that little difficulty has been experienced in justifying any measure of taxation before courts of law. The U.S.A. Courts have consistently held that the power to appropriate, *i.e.* the power to spend the proceeds of taxation is as broad as the power to tax and is, therefore, limited only by reference to general welfare. It has also been held, because of linking the power to tax with general welfare, that the power of the Congress to authorize moneys for public purposes is not limited by the legislative powers given to the Congress in the Constitution. However, even in the U.S.A. the power of Federal authorities to act through the power to tax and to appropriate the proceeds of taxation has been found to be not altogether unlimited. The Supreme Court, even while interpreting the provisions liberally, has laid down that distinction must be drawn between one welfare and another and between particular and general and these distinctions played an important part when the Agricultural Adjustment Act was held unconstitutional.

In view of this, even if the sources of revenue given to the Union prove ample, the power to tax and to spend may be subjected to a number of obstructive conditions. The Delegation proposals do not give the power to tax but merely power to raise finance; they also limit the use of this power, to finance required for the three subjects. At least two important

types of difficulties are thereby created which may be illustrated briefly. Firstly with reference to acts of taxation. If finance is raised by taxation the wording of the Cabinet proposals may lead to disputes relating to the manner in which particular tax proposals operate. A tax, inevitably, has other effects than those of raising revenue and if these other effects are found to be important the Union by imposing the tax, may be held to operate in the field beyond those of the subjects allotted to it. A customs duty levied with only a fiscal objective may have an unintentional protective effect, large or small. This might be held to make the levy of the duty *ultra vires* of the powers of the Union and similar difficulties are bound to arise in respect of all major taxes direct or indirect.

Secondly, it would not presumably be possible for the Union to raise funds in excess of its own strict requirements and if it had any surplus funds its power to appropriate would be bound by the same conditions as its power to raise finance. That is, the Union would have authority to spend money directly or through an agent only for a purpose within the field of the three subjects given to it. If this happens, one of the most important means by which federal governments have in recent times enlarged the scope of their activities will be denied to the government of the Indian Union. The very broad taxing powers of federal governments have resulted in federal resources being usually more ample than the requirements of subjects directly within federal competence. Governments of federations have consequently found themselves with surplus funds. The federating states have usually been short of money, especially with the recent expansion of state responsibilities. Grants-in-aid by federal governments have, therefore, become very common and they have been one of the most potent instruments by which federal governments have exercised influence over broad spheres not directly under their purview. The conditional grants of the U.S.A. federal government have been used to induce states to fall in line with federal policy on a large number of questions. The severe encroachment of the tax-field by the Dominion Government has been used as a bargaining counter in dominion-provincial relations by the Dominion Government of Canada. And the government of the Australian Commonwealth was able to use jointly its power to tax and to make grants and its war-powers to compel the states to vacate the field of income-taxation during the war. It is obvious that a strict interpretation of the wording of the Delegation proposals would rule out the emergence of any system of federal grants in the Indian Union and the financial powers of the Indian Union under the proposals of the Delegation would be vastly weaker than that of any major federation in existence in the world today.

It has been argued that the scope of the powers of the Union could be increased by presuming upon some inherent powers in a national government and also by reference to implied or ancillary powers. The argument appears, however, to have little substance. For example, in the U.S.A. it

has no doubt been held that in the external sphere the powers of the federal government are supreme and not liable to division and the Courts have said that the power to declare and wage war, to conclude peace, maintain diplomatic relations with other sovereignties must be taken as vested in the federal government as necessary concomitants of nationality even if they had been never mentioned in the Constitution. However, internally the federal government is a government of enumerated powers and it has been laid down that the Congress has no inherent sovereign powers in the realm of domestic legislation. The subject of implied and ancillary powers has been largely discussed in connexion with the powers of the Dominion Government in Canada. The structure and wording of the British North America Act favour a liberal interpretation of the powers of the Dominion Government. Section 91 of this Act gives powers to the Parliament of Canada 'to make laws for the peace, order and good government of Canada' and enumerates classes of subjects over which the Dominion Parliament has powers without restricting the generality of the initial provision. Section 92 enumerates subjects of exclusive Provincial legislation, the residuary powers remaining definitely with the Dominion Government. It would be expected that in these circumstances a large field might, in time, be covered by implied or ancillary powers. In fact, the division of powers according to enumerated subjects has been strictly maintained. The jurisdiction of the Dominion to legislate under the general phrasing 'peace, order and good government' has been held to exist only where the subject matter was outside those mentioned in Section 92, *i.e.* the exclusive provincial powers.<sup>11</sup> And the so-called ancillary legislation has been upheld by the courts in cases in which the enactment in controversy dealt with an aspect of the subject upon which provincial legislation would have been incompetent, in other words, the subject in the aspect dealt with fell strictly within one of the enumerated classes of Section 91.<sup>12</sup> It is thus clear that where the powers of the Union are confined to named subjects and all the other powers vest with the provinces there is little hope of an expansion of Union powers through the doctrine of inherent, implied, and ancillary powers.

#### *Other Matters*

Finally, we might consider the effect on Union powers of the definition of fundamental rights incorporated in the constitution. It has been stated that if fundamental rights incorporated in the Union constitution cover a wide field, the Union Government would be automatically vested with large powers to ensure the observance of these rights in the territories of the groups and the provinces. To say this is, however, to misunderstand the working of federal constitutions. The declaration of fundamental rights would merely limit appropriately the legislative or the executive powers

<sup>11</sup> Cameron, *The Canadian Constitution*, Vol. II, 1930, p. 15.

<sup>12</sup> See Clement, *Law of the Canadian Constitution*, 1918, p. 506.

of the Union, group or provincial governments. It would, however, not increase the power of one government while limiting that of the other. In a federal constitution where there is a division of powers between two coeval authorities the responsibility for seeing that powers are exercised within the proper limitations of the constitution does not rest with the federal government. The provincial government is not to be mistaken for a local government in a unitary state. In federal states the organ whose duty it is to limit action outside the constitutional sphere is inevitably the Judiciary. A large number of fundamental rights widely defined would increase work and powers of the Federal Judiciary but not that of the Government of the Union. A reference to the history of the interpretation of, for example, the 5th Amendment in the U.S.A. Constitution will make this clear.

### *Conclusion*

To sum up, the powers of the Indian Union would be confined strictly to the three subjects: Foreign Affairs, Defence and Communications. In times of war these powers would prove wide enough for most purposes and emergencies. In times of peace, on the other hand, the Union Government would prove to have little real power to influence the economic life and development of the country, except to the extent that this is influenced by decisions of international organizations and except in a subsidiary manner through control over communications. The treaty-making power and the power to raise finance are not likely to increase the sphere of influence of the Union. Resort to the doctrine of inherent, implied or ancillary powers would prove ineffective and a wide definition of fundamental rights will also not lead to any extension of the authority of the Union.



## THE CONSTITUTION OF FEDERATING UNITS\*

THE needs of special regions and the special position of states would call for a variety of devices and degrees of devolution within the boundary of a federating unit. The federating unit in the proposed Union is the nuclear and the most important unit and may be composed of either provincial or state territory or a combination of the two. The federating unit gives up control over the specified subjects to the Union. All the remaining powers are held by itself. If groups are formed the federating unit may in turn cede some powers to the group government. Initially, however, it is the federating unit that possesses the plenitude of power. A federating unit may cover large areas in which a variety of economic or geographical conditions may be present. To meet the needs of regions with any special characteristics or those of large city units included in the province, appropriate constitutional provisions must be made.

In Russia there is a graded set of political units. The autonomous republics form the U.S.S.R. by federating together; but within each autonomous republic are also included autonomous regions and autonomous districts. In Germany with each State—Lander special provision had been made for the self-government of large rural areas and the big cities. In France, before the war, claims of regionalism were being pressed insistently, and in Britain there was the demand for Home Rule in Scotland and Wales. The authors of the Mont-Ford Report were aware of similar problems in India on account of the large size of some of the provinces. They, therefore, contemplated the possibility of creating a sub-province, with a considerable element of autonomy, within a province.

Before considering the possible gradations in the Indian Union with their appropriate scope and functions, we might first indicate the essential requisite powers and characteristics of a federating unit, if it is to maintain its integrity. There is an essential constitutional difference between the status of a federating unit in a federation and the status of a sub-province or other unit that would be conferred on it by the legislature of the federating unit. For the whole province or federating unit, a single legislature exercising certain rights and powers including those of creating the autonomous units and endowing them with powers must, of course, exist. An executive for the whole province goes with the provincial legislature. It would also be necessary that recruitment to superior services, akin to

\* Publication No. 2, Samyukta Maharashtra Parishad, Poona, 1946.

the All-India Services of the present day, should also take place for the province as a whole. There would be similarly a single supreme court for the whole province, and the highly specialised and research services and institutes would be provincial. In the legislative sphere, it is clear, that the all-province legislature must have powers of a general and overriding character in all matters, economic and social. The civil and criminal law would be uniform for the whole province as also industrial and commercial legislation. The province would have to have the necessary powers for economic planning, including crop planning. It would maintain the major social services and lay down the main lines of social legislation.

After reserving all these powers for the provincial legislature the measure of autonomy of a sub-province may vary according to the needs of the situation. It would be possible to have sub-provinces endowed with powers almost equal to those of the powers of the Indian provinces under the Government of India Act of 1919. Such provinces could control their system of Land Revenue administration and might even have control over administration of justice up to the stage of the jurisdiction of the Supreme Court. In most economic matters such as agriculture, forest, fisheries, and industry, small and large, they could enjoy concurrent powers of legislation subject to the overall supervisory, directive and co-ordinating powers vesting in the all-province legislature. Such a constitution for a sub-province would be suitable where a province or other federating unit was composed of two or more equally important sub-units which differed considerably from each other in economic or other circumstance.

In the large majority of instances, however, a sub-province with these large powers would not be called for. For most regions provincial powers such as those enjoyed by provincial councils under the constitution of, say, South Africa would be sufficient. The main heads of powers here are: (1) specified tax sources; (2) borrowing-powers with the consent of the superior governments; (3) local self-government institutions; (4) local works and undertakings; (5) agriculture, forests, fisheries, etc.; (6) public health, including hospitals and charitable institutions; and (7) education other than higher education. With these powers will also be associated the right to the establishment, tenure, appointment and payment of officers and the holding of public lands and other property.

We might also consider the scheme of Home Rule put forward in connection with Scottish and other demands. For example, the scheme of devolution suggested for Scotland and other areas by Prof. Ramsey Muir contemplated the transfer of mainly the following subjects; police and prisons, agriculture and fisheries, public health, education, relief of poverty, regulation and organisation of local government. It will be seen that this list is very similar to the list furnished above on the analogy of the powers of the South African provinces. Prof. Muir's list contains police and prisons as an additional subject and he evidently would not qualify the control over

education by the omission of higher education from it. He also points out that even after devolution the central parliament could not divest itself of its reserve powers of overriding legislation. The constitution of a sub-province enjoying such powers would evidently meet the needs of the situation wherever there are large important areas whose economic conditions are materially different from those of the bulk of the province.

There might, however, be other instances where the main difficulty is not that of variety of conditions or of any cleavage of interests, but arises out of fear of neglect because of the distance from the centre of political power. In this case the appropriate method might be not that of creating a sub-province but, on the analogy of Scotland, creating a special ministerial office and resorting to departmental devolution. The existing arrangements for Scotland in the British Government are as follows. There is a Scottish Office at the head of which is the Secretary for Scotland. This is a principal secretaryship with a seat in the Cabinet; there are also a Lord Advocate and a Solicitor General for Scotland who are members of Government but not of the Cabinet. Scotland has, since old times, its own system of laws and separate courts with a distinctive procedure etc. and separate bills have to be passed for Scotland on many subjects. These are, by an established convention, always referred to a Select Committee consisting of all Scottish members. The Secretary of State for Scotland deals with all special Scottish departments and has thus a diversity of subjects under him. There are a number of Scotland departments each with its permanent Secretary and office in Edinburgh. There are, for example, the Scottish Board of Health, Scottish Education Department, Board of Agriculture for Scotland, Fishery Board for Scotland, etc. In the hands of strong Secretaries of State and under pressure for demand for Home Rule this system seems to have yielded fairly satisfactory results during the last two decades. The special responsibility cast on a member of Cabinet rank, who is invariably a Scotchman, with special departments to look after Scottish affairs has undoubtedly retrieved Scottish interests from neglect. In all those provinces where the homogeneity in social and economic structure and interest is considerable but because of the widespread extent of the area of the province certain regions might be inevitably left away from centres of main political government, the Scottish device would seem to be the most appropriate.

The problem of large cities is in a class by itself. A suggestion has been made that the large cities should be cut apart from their hinterlands and should be constituted into separate and independent federating units. The suggestion is obviously based on a misunderstanding of the nature of the federating unit. The life of a large city is highly one-sided and the lack of appropriate co-ordination with its hinterland is even more harmful to itself than it would be to the hinterland. The city by its political or economic constitution is not fitted to be the well-nigh omnipotent and self-sufficient federating unit contemplated in the Indian Union. This is apart from the

great injustice involved in divorcing the concentrated resources of an urban centre from the province in which it is situated. Such a divorce would cripple the intellectual and social life of a province and would rob it of its natural centre of all important activities. It would create great difficulties in the way of internal economic co-ordination and it would cut into the financial resources of most provinces to a disastrous extent. Such a divorce would necessarily have the reaction of the provincial units deprived of their natural centre seeking to create rival centres within their own area. Therefore a step which leads to the cutting off of large cities from the provinces or regions in which they lie would in every way be harmful. At the same time the problems of these large cities with their mixed population would need special attention and these could only be met by creating semi-autonomous regional authorities on the lines of large city corporations elsewhere. These city corporations would be endowed with powers over public health, roads, bridges and other similar works, elementary and secondary education including vocational and technical education, building and housing, town planning, the undertaking of trading and industrial enterprises with large planning powers and powers to undertake all types of social welfare and cultural activities. An active city corporation armed with such an amplitude of power would be able to deal adequately with all problems raised in the administration of these big cities.

## THE FORMATION OF NEW PROVINCES\*

It is safe to start with the assumption that the main aim of the formation of new provinces will be the creation of units which are politically more homogeneous than the existing provinces. Before attempting the reformation it will, therefore, be necessary to lay down tests of political homogeneity. This means that the Constituent Assembly will have to indicate the characteristics of a population in relation to which it will be judged to constitute a political community distinct from its neighbours. The test or characteristic most generally accepted so far has been that of language. Other tests that might be accepted in certain circumstances would be those of religious or racial composition of the population. Even after the separation of the Muslim majority region, it may become necessary to constitute, in the Punjab, a political unit in which Sikhs are specially concentrated. It may also be considered desirable to form political units or sub-units in areas of heavy concentration of tribal population in Central and Eastern India.

If language is accepted as the main test of political homogeneity, the boundaries of the new political units should coincide with the boundaries of the areas inhabited by distinct linguistic groups. The number of languages of all kinds spoken in India is, however, known to be large. The first step in the formation of the new provinces would be to determine the major languages on the basis of which the formation of political divisions should proceed. In doing this, the size of the population speaking a particular language, the dispersion or concentration of that population in the particular area or areas and the stage of development reached by the language would all have to be taken into consideration. There are languages which are spoken by comparatively large numbers and which may yet not be used for writing to any considerable extent or may not have a highly developed literacy tradition. The extent to which all such languages should be fostered and developed or be allowed to diminish in importance is a matter on which decision will have to be taken on the plane of policy-making. The problem will assume importance in the formation of political units and in administration of the regions in which the tribal population is concentrated. Apart from the tribal areas, the problem will have to be faced when dealing with areas in which small but compact groups of population speak a language related to but not as well developed as a neighbouring major language; as for example, in the case of speakers of Cutchi,

\* Publication No. 4, Samyukta Maharashtra Parishad, Poona, 1946.

Konkani or Tulu. In case it is decided that a minimum strength in population and resources is necessary before any distinct linguistic or other group becomes entitled to form a separate province by itself, the smaller groups of population must be provided for by being given special autonomous status or privileges within the larger political units of the major language to which they are affiliated. In this event, it may be thought desirable to provide for the local language on lines on which provision is made for the use and teaching of Welsh in Wales. This, again, is a question, decision regarding which will depend on the shape of general linguistic policy.

The Constituent Assembly will be called upon, in the first instance, to lay down tests of political homogeneity. The application of these tests will yield a given number of potential political units within the whole of the Indian Union. The determination of these homogeneous political units is merely the first step in the formation of new provinces. The application of tests of political homogeneity will yield the areas in which communities, which can be considered as politically or culturally distinct from their neighbours, live. Before political units are formed and their status determined, the Constituent Assembly will have to take another set of decisions. It will have to define the minimum limits of population, resources, etc., which must be reached by the individual politically homogeneous units before attaining the rank of a full province. And it will have to determine the manner in which distinct political or cultural units which fall short of these minimum requirements are combined with or incorporated into larger contiguous units and the political status and the measure of autonomy, if any, which they continue to enjoy after such combination or incorporation. The completion of this second stage will determine (i) the number of politically homogeneous units which are entitled to the full status of a province and (ii) those which are not so entitled. It will also indicate the particular bigger units with which particular small units will combine and the political status that they will enjoy after this step.

The next series of problems will be those connected with politically homogeneous units which are much larger than the minimum laid down for the formation of a separate province. It may be considered desirable that a province should not be larger than a certain maximum size. Some of the units formed merely by the application of tests of political homogeneity may be very large. The division of such units into more than one independent province would then have to be contemplated. The formation of two or more provinces from within a comparatively homogeneous region and population will have to proceed mainly on considerations other than that of political homogeneity. Considerations of history, geography and economic circumstances may then become important, and each type of consideration will receive more or less weight according to the particular problem to be handled.

The problem of the formation of more than one unit out of the politically homogeneous unit may have to be faced even where the area of population of such a homogeneous unit is not too large. Any part of a politically homogeneous unit may desire to be a separate province in itself because of reasons of history or other considerations. A claim of this kind by any part of a presumably homogeneous political area will have to be judged in relation to the general principles regarding the formation of provinces to be laid down by the Constituent Assembly. If, for example, it is the intention to form comparatively large provinces and to bring the area and population contained within a province up to a maximum as far as possible, the tendency towards the formation of separate provinces from within a politically homogeneous area will have to be discouraged. If, on the other hand, the view is adopted that provinces should be as numerous as possible, so long as they are above a certain minimum size, encouragement may be given to the formation of more than one province out of even a comparatively small politically homogeneous unit. The Constituent Assembly may, however, decide to accept neither one nor the other of these alternatives as a general principle, and may desire to judge each question on its merits. In this event, the decision may be taken by resort to the operation of the principle of self-determination. It is obvious that even the principle of self-determination could be allowed to operate only within given limits. Thus an area which is smaller than the minimum laid down for a full province will not be allowed to constitute itself into a separate province. Further, within the limits laid down, the exercise of the right of self-determination could be attributed only to distinct and well-defined regions.

The formation of the new political units will thus proceed in the following stages: (i) determination of the distinct politically homogeneous units in accordance with tests laid down; (ii) definition of the criteria for attaining the status of a full province; (iii) determination of the units to which the units which do not satisfy these criteria are attached and of their status after the attachment; (iv) formation of more than one province out of units that exceed certain limits of size, etc.; and (v) decisions regarding claims to forming separate provinces put forward by regions which are part of a politically homogeneous unit taken either in accordance with pre-determined principles of policy or by resort to self-determination.

The next step after defining the main regions which should constitute the political units within the Union will be to lay down the principles and procedure by which the exact boundaries of these units are determined. In this connection, attention may be drawn to a few fundamental considerations. It is obvious that the total area subject to redistribution must be completely divided between the new units. It follows that tests for the determination of the allocation of an area to one or the other unit must be so devised that no region or locality is either allotted to more than one unit or left unallotted to any unit. Further, it is important that the area

of each new unit is consolidated into one expanse of contiguous territory with a continuous unbroken frontier. This means that the territory comprised within the frontiers of any unit is all allotted to that unit and that no islands or pockets belonging to other units are left within it. It is obvious that the application of any tests of political homogeneity will still leave localities with mixed populations within the areas of all the units. Such localities must be treated as localities inhabited by minorities within the political unit as a whole and cannot be considered as forming elements external to, *i.e.* not subject to, the political authority of the unit within whose frontiers they lie.

The instrument of the plebiscite will have to be used for ascertaining the wishes of an area in the formation of independent provinces or the attachment of the smaller units to one or other province. A plebiscite may have to be taken when there are conflicting claims regarding the attachment of a small unit. A politically distinct homogeneous unit which is not entitled to become a full province by itself will have to be attached to a contiguous large unit. In case there is difference of opinion regarding the attachment of the particular unit to one or the other of neighbouring units, the matter will have to be determined by a plebiscite taken from among the population of the unit which is to be so attached. In the same way, plebiscites will be necessary to ascertain the wishes of an area regarding the claim to be constituted into a separate province in case there is no apparent general agreement in this regard.

The plebiscite will also have to be used for the determination of the exact frontiers of the new linguistic provinces. No other method is likely to be found suitable for the purpose. The evidence of such previous counts as that of the census of 1941, is not likely to be accepted by all the contending parties in the determination of their claims. Also, the division of the population in the frontier regions is best done by determining their active choice. The plebiscites to be taken for this purpose would best follow the procedure developed during the last few decades in Europe and other continents. The protagonists on either side will be invited to define the boundaries of their regions according to themselves. The territory which is claimed for inclusion within the frontiers of more than one region or province will constitute the territory in dispute. This will presumably lie on either side of the exact boundary to be determined by the plebiscite. It is within this frontier band or strip that the plebiscite will be taken. The revenue village will presumably be treated as the basic unit for purposes of compiling the results of the plebiscite and drawing the frontiers. The frontiers after plebiscite will be drawn in consonance with the principle of a continuous unbroken frontier for each unit and as such in accordance with the vote as possible, that is, the frontier will be so drawn as to attempt to give satisfaction to the greatest possible number of voters. The situation of the Union will, it is presumed, contain provisions for



bringing about any adjustments in the status or frontiers of units which become necessary in the light of later experience.

The method of a plebiscite based on revenue villages may prove inapplicable where a frontier has to be drawn through an uninhabited region such as a desert or a forest. In these instances, frontiers may follow suitable geographical features, as for example, courses of streams or watersheds. The problems of delimitation will, however, prove difficult when the uninhabited region contains valuable natural resources, actual or potential. When this happens, boundary-making will involve detailed investigation into a number of geographical, sociological, etc. features of the region as exemplified by the problem of the division of the Mosul area between Turkey and Iraq.

Some problems might arise in determining the population to be entitled to vote in the plebiscites. The residential qualifications in frontier plebiscites will have to be carefully defined. Even more careful definition will be required where there are claims for a region or a locality to break away from the politically homogeneous unit within which it clearly falls according to tests laid down. In such a case, the right of vote must be presumed to pertain only to those who belong to the same homogeneous political unit and not to those who do not so belong or claim to belong. No part of the population which is not indigenous is entitled to determine whether a presumably homogeneous region is to be split up into two units or not.

### *Summary*

The first step in the formation of new provinces which are politically more homogeneous than the existing provinces, would be to lay down tests of political homogeneity.

Secondly, minimum limits of population and resources will have to be laid down which must be satisfied by a politically distinct homogeneous unit before it is constituted into a separate province.

Thirdly, the units that do not satisfy these criteria must be attached to particular neighbouring units and their status after attachment defined.

Some politically homogeneous areas which are considered too large to form one province may be divided into more than one province for convenience of administration.

Decision about claims to separation from within politically homogeneous units will depend on the policy regarding the optimum size of provincial units. Each individual claim will also have to be judged in relation to certain economic and political criteria to be laid down.

The determination of boundaries and the exercise of the right of separation from within a politically homogeneous unit will be effected by holding plebiscites.

New units must be consolidated into one expanse of area of contiguous territory with a contiguous and unbroken frontier.

Tests for the allocation of areas between units must be so devised that no region or locality is either allotted to more than one unit or left unallotted to any unit.

Territory comprised within the frontiers of any unit must all be allotted to that unit.

In boundary fixation, strips of regions claimed to be under dispute on either side of a hypothetical boundary will be determined and the boundary defined after plebiscite in this disputed area.

Plebiscite results will be compiled according to votes per revenue village, and the frontier drawn so as to give satisfaction to the greatest possible number of voters.

## HINDU STATE\*

A "Hindu State", or more fully a "Federation of Hindu Nation-States" is the only proper description of the new Indian Union. Such a description has even less theocratic import than the description of the U.K. and the U.S.A. as Christian States. For, the term 'Hindu' is not associated with any particular cults or modes of worship or any set of theistic beliefs. The Hindu fold embraces within itself atheists as well as demon-worshippers and its philosophical systems range all the way from materialism to mysticism. In its broadest connotation the term 'Hindu' includes the parallel Buddhistic and Jain traditions and all the mediaeval and modern reforming movements such as Lingayatism, Sikhism or the Brahmo Samaj. Professing the Hindu tradition is not necessarily incompatible with the practice of any particular religion and large numbers of Indian Christians have found no contradiction between the practice of Christianity and membership of the Hindu cultural world. The term "Hindu State" therefore, denotes no more than the State of the peoples who belong to a particular historico-cultural tradition and the Indian Union as a Union of such peoples and of the regions predominantly inhabited by them.

(2) To describe the Indian Union as a Hindu State is to bring out its dominant and most significant characteristic and can never mean that the territories of the Indian Union have no place for those who do not belong to the Hindu tradition and that such others will be discriminated against in law or in practice within the Union. The English State is closely connected with the Anglican Church. This has not prevented it from extending complete equality of treatment to all citizens, whether within or without the Anglican fold. Hindu rulers have followed the practice of religious toleration and non-discrimination against non-Hindus since times when even these concepts were unknown elsewhere. It is, therefore, a gross libel on the Hindu people to maintain that the description of a State as a Hindu State will breed intolerance or lead to discrimination.

On the other hand, the insistence on denying the Hindu character of the Indian Union must leave it without any principle of cohesion. The Indian Union, after the creation of Pakistan, is no longer even a significant geographical entity and the division of Bengal and the Punjab have shown that loyalty to the Hindu fold transcends considerations of regional unity and the language tie. For the scattered and diverse peoples comprised

\* Text of Statement issued at Poona on October 10, 1947.

within the Indian Union today, from the Assamese to the Gujarati and from the Punjabi to the Tamil, the only cementing bond is the Hindu Heritage. Large political aggregates will not hold together for reasons of mere convenience and contiguity. History for thousands of years has shown that the Hindu allegiance does exercise, however fitfully or unevenly, a powerful hold on peoples within this land and is a vital principle of cohesion within it. To deny it is not only to fly in the face of history but also to run a grave risk of compromising the future. For, once this element is rejected or ignored, there is none to take its place. Many nationalities within the Indian Union today take pride in and have an abiding interest in the development of the Hindu tradition. If their State cannot be described as a Hindu State, they might well wonder why they should continue to have their fortunes linked permanently with peoples who cannot avow their Hindu origin and own the name Hindu.

(3) The partition of India has resulted in the creation of two States, one a Muslim State and the other a Hindu State. It is likely that if the principle of partition had been accepted with greater understanding and frankness and the partition had been brought about with less hustle and more deliberate thought, the catastrophe that has followed upon it might have been, at least in part, avoided. Whatever that might be the problems now facing the two Dominions can be properly appreciated only after a frank acknowledgement that one State is Muslim and the other Hindu. Hindus and Sikhs are fleeing from their homes in the Muslim State and seeking entry into and protection under the Hindu State. The leaders of these migrant masses have rightly resented the appellation 'refugee'. The 'refugee' is a stateless person and the state that harbours him extends charity. The role of the Hindu State vis-a-vis the Hindus and Sikhs of the Muslim State cannot be defined as that of a benevolent neutral. The immigrant Hindus and Sikhs might well be called potential citizens of the Hindu State who found themselves by the act of partition placed on the wrong side of the border. The partition was carried out on the assumption that in the Muslim State these Hindus and Sikhs would continue to enjoy all the rights of citizenship and be enabled peacefully to pursue their lives and vocations. These hopes have been belied and being forced to leave their homes because of the attitudes or actions of the Muslim State or of its Muslim citizens, they desire entry and incorporation into the Hindu State. They must perforce be accommodated and their accommodation must be based on a principle and must follow a plan.

Most regions in India are already full of people and the attempt to distribute the so-called refugees all over the country is neither fair to them nor to the regions which are asked to receive them. In most of these regions the 'refugees' will not feel as if they have settled among their own people. Also, most regions in India have their own problems of population and would, if they took a long view, be chary of admitting any large numbers

who could not be easily assimilated within the indigenous population. The migrant Hindus and Sikhs can, therefore, be accommodated within the Hindu State only if an appropriate compensatory movement takes place out of specific regions within it. If the action of the Muslim State has created a problem of influx in the Hindu State the compensatory action must be for an appropriate number of Muslims to flow into the Muslim State and make room for the entry of Hindus and Sikhs. It follows that this process must take place in the regions nearest the border with which the linguistic, cultural, social, etc. affinities of the incoming population are the closest and also that the exchange must take place in a systematic manner under the direction of the two States. The present conditions are unfortunate in the extreme. An exchange of population is taking place but the movement is due to panic born of threats and intimidation. It is the duty of both the States to prevent these conditions. But this cannot be done until the incoming streams of people and the sympathising inhabitants of bordering regions are assured that the problem of finding room for them in the Hindu State is being systematically tackled and is likely to be satisfactorily solved in due course. In the absence of any such assurance, conditions are bound not to get better but worse. If the Indian Union is finally convinced that whether with or without full justification, the Hindu-Sikhs of the Pakistan area will not stay in Pakistan and will have to be settled within the Indian Union, it must ask the Pakistan Dominion to accept in exchange an equivalent number of Muslims and this number must be determined not haphazardly but as for a definite region. The incoming stream from the Punjab and the North-West Frontier Province must be given accommodation in the East Punjab and the Delhi region and the exodus from Sind must be accommodated either in the Delhi region itself or in the contiguous regions of Rajputana and Kathiawar. The Government of the Indian Union must, on calculation, delimit these regions of settlement and the exchange of populations within the regions so delimited must take place on a compulsory basis. Any solution on lines other than these will result in spreading the consequences of the exchange and its psychological repercussions over a very wide tract and of unnecessarily creating problems of congestion and conflict in many dispersed localities throughout the country. The compulsory exchange of populations within defined regions is the only way in which the problem can be tackled on a state to state basis. It is only thus that the cumulative process of retaliation and revenge can be ended. This policy, however, will appeal to the Government of the Indian Union only when it realises that it represents a Hindu State and has an overpowering obligation towards the Hindu-Sikhs in Pakistan.

(4) The problem of Junagadh and Hyderabad can also be rightly understood only in this perspective. The Gujarati Hindus of Junagadh and the Andhras, Marathas and Kannadigas of Hyderabad are all bound by

ties of race, language, culture and history with important constituent units of the Indian Union. It is after all a minor point that Junagadh forms an integral portion of the geographic entity, Kathiawar. The important fact is that the territory of Junagadh belongs to the Hindu nation of Gujarat and its inhabitants and cannot be made, against their will, subject to the Muslim State of Pakistan. The Gujaratis within the Indian Union cannot stand by and see the people of Junagadh so forced without an effort to prevent it and the Indian Union of whom they form an important part is right in taking up their cause on a State to State basis. The position of Hyderabad is on all fours with that of Junagadh. Whatever the merit of Satyagrah as a weapon in a fight against the British its use is obviously inappropriate in the case of Hyderabad. Satyagraha in Hyderabad is today merely giving a handle to the Muslim army and Police to terrorise and oppress the Hindu masses. The Hyderabad Hindus must not be encouraged or allowed to continue such an unequal struggle which might have long-term disastrous results. All Andhras, Marathas and Kannadigas are gravely concerned over the denial of political rights to their fellow nationals in Hyderabad and also over their oppression in educational, cultural and religious matters. For righting all these wrongs they must act through the Government of the Indian Union. In the days of the Maratha Confederacy, the Maratha princes were looked upon as the natural protectors of Hyderabad Hindus. The Government of the Indian Union takes their place today and must try to act with diplomatic and other weapons at least as effectively as they did.

## THE FUTURE OF BOMBAY CITY\*

THE Linguistic Provinces Commission has incorporated a question regarding the future political status of the City of Bombay in its questionnaire. That such a question should have been included in the questionnaire is a significant comment on the prevalent confusion regarding the principles on which the Constitution of the Indian Union is to be based. In dealing with this matter beginning must therefore be made with indicating what appear to be the basic principles regarding territorial arrangements and constitutional relations within the Indian Union. The first resolution adopted by the Constituent Assembly of India laid emphasis on the federal character of the Union and the large sphere of autonomy to be enjoyed by its constituent units. The third paragraph of the resolution is as follows:

“Wherein the said territories, whether with their present boundaries or with such others as may be determined by the Constituent Assembly and thereafter according to the Law of the Constitution, shall possess and retain the status of autonomous Units, together with residuary powers, and exercise all powers and functions of government and administration, save and except such powers and functions as are vested in or assigned to the Union, or as are inherent or implied in the Union or resulting therefrom.” The Indian Union is a federation formed by the coming together of peoples inhabiting various regions of India. Most of these have had an independent political existence in the historical past and have enjoyed a status comparable to that of the nationalities on the continent of Europe. The division of the country into administrative units during British rule bore no connection, in a number of areas, with fundamental facts of political tradition and sentiment and were results chiefly of historical accident. From the time, however, that public opinion began to exercise active influence in Indian politics, the redistribution of territories and rearrangement of provinces have proceeded by reference to the facts of political and cultural homogeneity. The separation of Bihar and Assam from Bengal, the agitation against the partition of Bengal, the creation of Orissa and Sind as separate Provinces, are all landmarks along this path. The establishment of a sovereign republican Indian Union demands that this long drawn out process be immediately completed.

The autonomous states which are to be named in the first schedule of the Constitution of India must be composed of territories peopled by

\* Published by the Samyukta Maharashtra Parishad, Poona, 1948.

citizens united with common purposes and fired with a common loyalty to their states. The formation of such states implies the search for a principle in the light of which homogeneity of political sentiment can be determined. By general consensus of opinion this has been found in linguistic affiliation. It is now widely recognised that linguistic affiliation in India, outside the block of speakers of Hindi, denotes not only commonness of language but also, in general, commonness of historical and cultural traditions and a broad unity of political sentiment.

Once this is conceded, the next step is, as in the creation of Sind and Orissa, the determination of the area of the linguistic units through the determination of the extent of contiguous territory inhabited, in the main, by people speaking one major language. Such territory is the territory of the people speaking that language and forms the area of an autonomous state in the Indian Union. The integrity of this area, however determined, must be taken for granted. If any meaning is to be attached to the term federal union, the territories of the states must be considered inviolable; and once the principle of basing the formation of autonomous states on areas inhabited by the speakers of one language is conceded, the whole of the territory properly included within each such area must belong to the autonomous state of the linguistic group. Any attempt to take away any part of area or region falling within the territory of the speakers of a language constitutes a violation of the federal principle, and of the integrity of the state, actual or potential, and an insult and an indignity offered to that linguistic group.

It may be noted that the process of reformation of state units has been proceeding during the last year among territories of former Indian states. This process has also gone along the path of the quest for political homogeneity; and, wherever the reformation affected areas of states composed of speakers of other languages than Hindi, the principles of attaining linguistic homogeneity and including the largest possible homogeneous linguistic unit within the new unit have been followed. This is exemplified by the procedure adopted in the formation Saurashtra and in dealing with states in Gujarat, Maharashtra, Karnatak, Orissa, etc.

It has begun to be recently alleged that the demand for linguistic provinces indicates a fissiparous tendency. There can be no grosser misrepresentation of the attitude of those who put forward the demand. The demand is not linked with any particular view of the powers of the Federal Government or the strength of the Union. Those who make the demand only say that, granted the federal character of the Union — and this is the unanimously agreed basis on which the work of the Constituent Assembly is proceeding — the formation of the autonomous states must be brought about on a clear and logical plan. The boundaries of provinces during the British Period or the influence of vested interests then built up must not be allowed to confuse the issue. The new autonomous units will



have the same status as the existing units and can be trusted to be equally loyal to the Union. It is a sufficient reply to this criticism regarding fissiparous tendencies of linguistic claims to point out that most of the units, other than those affected by the demand for the creation of linguistic provinces, are already unilingual. If there is any special virtue in heterogeneous population areas and if the co-existence of varied language groups breeds some superior type of nationalism, then efforts should immediately be made to alter suitably the boundaries of Bengal, Bihar, Orissa, Assam and the United Provinces. If, however, these provinces are to continue to enjoy the political and administrative advantages flowing from having territories inhabited, in the main, by speakers of one language, other areas must be given an equal advantage. The truth is, the present demand for linguistic provinces is no more an exhibition of the fissiparous tendency than the demand of the Biharis, Bengalis, Assamese, and Oriyas regarding their Provinces in the past or the aspirations in the direction of Maha-Gujarat of the leaders of Gujarat, and the demand is opposed and calumniated only by vested interests who fear that they might be affected adversely by the redistribution of provinces or by the floating elements in our population who have no roots in any region but who exert, at present, an influence entirely disproportionate to their numbers. Some opposition to the demand has recently emerged also among speakers of Hindi from elements who exhibit signs of an incipient imperialism.

To sum up, the principles basic to the formation of new states in India are that (1) the new units formed should have homogeneity of political sentiment and that commonness of language is an adequate index of such homogeneity, in the non-Hindi speaking areas; (2) as large an area of contiguous territory as possible which is politically homogeneous should be constituted into an autonomous state unit; (3) that, as a necessary concomitant of the status of an autonomous unit in the federation, the integrity of the territory of each autonomous state should be fully respected.

## II

A clear understanding of these principles would lead to a realization of how unnecessary it is to ask any question regarding the status of Bombay City. There is no doubt that the Islands of Bombay and Salsette have formed an integral part of the territory of the Konkan inhabited by speakers of Marathi from times going back to the emergence of Marathi as a distinct language. The evidence of epigraphy, of monumental records and other historical data prove conclusively that Konkan up to Daman in the North has always been inhabited by speakers of Marathi and been thus always and indubitably Maratha territory.<sup>1</sup>

<sup>1</sup> "Along the Coast, Marathi may be said to begin at the Damanganga river or with Thana District." *Census of Bombay Presidency*, J. A. Baines, 1882.

In recent historical times Shivaji and his successors took part in liberating the territory of the Konkan both to the south and north of Bombay. Today, the nearest boundary of the territory of speakers of a language other than Marathi is to the north of Bombay and this boundary does not come nearer than 80 miles from Bombay. To the south and the east the territory of the speakers of Marathi stretches hundreds of miles from Bombay. The territory of the Island of Bombay and Salsette is thus territory of the speakers of Marathi and there should, therefore, be no doubt regarding the place of Bombay in the new set-up of the Indian Union. Bombay city is obviously a part of the linguistic unit and potential state, Maharashtra, and must remain so.

Bombay and its environs have, further, been always inhabited by a majority or near-majority of the speakers of Marathi. It is highly unlikely that the Islands contained any significant number of speakers of other languages before the intrusion of the Portuguese and the English. Large migrations took place only in the 19th century but even after the English occupation of Bombay and its industrial development the bulk of the population of even Bombay city has always been of speakers of Marathi, as the statistics of the census from 1881 to 1931 make amply clear. The 1941 sample census give the numbers of speakers of Marathi in the sample in Bombay city as just under 50%, which does not show any great deviation from the 1931 figure. Moreover, apart from the majority of the inhabitants of Bombay being speakers of Marathi, the speakers of no other language in it have ever numbered more than 21%. It should, however, be emphasized that considerations regarding the composition by language of the population of a particular locality is completely irrelevant to the determination of the territory of a linguistic state. The fact may be significant only when the locality is on the border between two language areas, in which case the linguistic composition of each locality may influence the drawing of the frontier. The linguistic composition of particular localities which are within the undisputed territory of a uni-lingual state has no importance in this context. There are localities within, for example, Maharashtra, such as Malegaon, in which the majority population is of Muslims and of speakers of Urdu. This would be yet no ground for considering the localities as potentially parts of Pakistan. In a similar manner, large and small colonies of speakers of Marathi are scattered over many parts of India. But, such localities cannot be considered as being either affiliated to Maharashtra or constituting in any way units different from the other parts of the particular linguistic area in which they are placed.

Not only is Bombay a part of the territory of Maharashtra but it is in many ways the centre of the life of the Marathi speaking peoples. It represents the largest urban concentration of the speakers of Marathi. As such, it is the main centre of many cultural activities of Maharashtra, as for example, the Marathi press, publications in the Marathi language and

the Marathi drama. It should be noted that Bombay City does not stand in this relation to the group of speakers of any other language. The whole of the railway and road system of Maharashtra is oriented towards Bombay. A glance at the road and railway map will make this clear. It would also be clear that Bombay does not similarly form the focal point of the road and railway systems of the linguistic neighbours of Maharashtra, Gujarat on the north and Karnatak on the south. Because it is the focal point of the transport system Bombay is almost the sole outlet for the trade of the whole of the hinterland of Maharashtra and is the centre at which all the major gains from the trading and industrial exploitation of this hinterland are concentrated. In this respect also the relation of Gujarat and Karnatak to Bombay is vastly different. The natural ports for Gujarat have always lain north of Bulsar and with the formation of Saurashtra and its incorporation in the Indian Union port facilities on a very generous scale will be available for the foreign trade of Gujarat. The quest for a port for Karnatak has been rightly undertaken by the Government of India and the new port will prove the natural outlet for the major part of the trade of the autonomous state of Karnatak. Bombay again is not, to anything like the same extent, the centre of trading and industrial activity connected with the exploitation of the resources of Gujarat or of Karnatak. Gujarat has a vigorous and large centre in Ahmedabad and has many other smaller centres, actual and potential. All of which indicates that not only does Bombay form a part of the territory of Maharashtra formally, but is the largest centre of Maratha cultural, intellectual, urban life and is the focus of the economic life of Maharashtra. It should thus be unthinkable to form a state of Maharashtra which has not Bombay as its capital and it would render impossible the working of a state of Maharashtra, if any, attempt was made to separate the City of Bombay from it.

Before going on to a detailed consideration of the future political status and administration of Bombay remarks may be offered on the proposals to constitute Bombay city into a free city or a federally administered area. The suggestion that Bombay may be treated as a "free city" ignores the fact that the "free city" is an anachronism. The concept of a "free city" as a distinct political organism was appropriate to medieval or ancient times, *i.e.* before the emergence of large territorial states. The independent or free cities of these times were either exploiting overlords of the surrounding rural area or were centres of foreign trade with little or no direct dependence on the surrounding area. Free cities which survived into the 20th Century were mere relics of medieval times and the last of these relics have now been incorporated into the appropriate territorial states. The position of Bombay has further been sometimes compared with cities which have been put under an international regime such as Danzig or Trieste. There is no analogy between the position of Bombay and that of either of these cities. An international regime has been found necessary

where acute conflicts have arisen between nations owing to a port and the coastal strip adjacent to it belonging to a linguistic and national group different from the group of the inhabitants of the hinterland which the port chiefly served. Danzig was a German city which served as the outlet to a Polish hinterland. Bombay is a Maratha city with Maharashtra also as its hinterland. Trieste is a city inhabited, in the main, by Italians who have, in historical times, extended along the coast up to Trieste and the hinterland of Trieste is chiefly Slavic. The speakers of no other language have, however, crept along the coast up to Bombay outnumbering the speakers of Marathi in any part of the adjacent coastal region and Bombay, as pointed above, does not contain a large number of speakers of any language other than Marathi.

It has also been suggested that the City of Bombay may be made a centrally administered area. It is obvious that the suggestion is made without due attention being paid to the principles basic to the formation of a federation. A federation is formed of units of autonomous states and the total area of the federation is divided completely between the various autonomous states. Only two categories of areas are directly administered by the Federal Government itself. Firstly, the area designated or reserved for the capital of the federation; and secondly, other areas which are outside the areas of states and are formed of units of colonial and semi-colonial status which cannot for one reason or another be raised to the political level of autonomous states. While a federation has usually powers of acquiring, for specific purposes, sites, lands, plants, etc., within the territory of any constituent unit, it would be considered a grave infringement of the federal principle if government or administration of any part of the territory of a state was sought to be taken away from it by the federation.

We may now turn to a consideration of main grounds on which the separation of Bombay from the rest of the territory of Maharashtra is justified; there are two such grounds. In the first instance, it is urged that while the speakers of Marathi in Bombay are the most numerous they are in the main clerks and labourers and that the bulk of the industrialists, financiers, traders and speculators speak other languages. This is no doubt true; and it is the result of certain forces of economic history which operated during the British period. The results of the operation of these forces are apparent not only in Bombay, but in many other cities of India, notably Calcutta. They have produced even extremer results in countries of South-East Asia outside India and have created the difficult condition which has been called "plural society". The conditions in Burma have been characterised by a writer in the following manner: "The Burman became steadily less important industrially in his own country. In the capital, Rangoon, he was nobody. The stigma of poverty beat him down."<sup>2</sup>

<sup>2</sup> Collis, *Trials in Burma*, p. 216.

Though this characterisation has some resemblance to the situation in Maharashtra and Bombay, the process in Burma appears to have gone further than in Maharashtra. Nobody yet dared to suggest that Rangoon should be considered as non-Burmese territory. The results in Bombay have perhaps been more extreme than in other places in India. However, it would be a curious commentary on the foundation of what is assumed to be a socialistic republic if in the arrangements of its basic territorial structure attention was paid, not to which people the territory appertained but rather to the hands into which property rights had fallen during British Imperial rule.

It may be said that though the largest element in the population of Bombay is that of the speakers of Marathi the speakers of other languages are also numerous and that it would be unfair to them to retain Bombay in Maharashtra. If accepted, this argument will strike at the very root of the peaceful formation and functioning of a federal union. The argument would imply that any people who allow the settlement of speakers of other languages within their territory run the danger of losing parts of their territories in course of time. In a federal union peacefully and amicably formed, liberty of intercourse and settlement for citizens of various states is a *sine qua non*. The influx of speakers of languages other than the language of the state may be large or small in particular states and localities. But the extent of such influx could surely not be allowed to affect the territorial integrity of a state or the political status of any locality within it. Wherever large number of speakers of languages other than the regional language of the state residé and settle and form important linguistic minorities, such measures relating to their rights will be provided for in the Union Constitution as appear appropriate and the terms and conditions would be the same whether it is the speakers of Marathi who reside and settle in states other than Maharashtra or it is the speakers of other languages than Marathi who reside and settle in Maharashtra. Free intercourse between linguistic communities or nations has been traditional in the history of India. The Nagarshet of Poona during Peshwa times was a Gujarati Bania and the proportion of speakers of languages other than Marathi in the population of Poona was at the end of 18th Century surprisingly large. Nobody could have then argued that the large influx of speakers of other languages made it justifiable to abstract the territory of the city from its proper context. The acceptance of such a principle for Bombay would not only raise immediately claims in relation to other areas of other peoples but also lead to the straining of relations between speakers of languages other than the regional language and the indigenous population in all areas.

In this connection reference may be made to a question which has somehow found its way into the questionnaire of the Linguistic Provinces Commission. This is question No. 19 which reads as follows:

"Do you think the creation of the new Province will lead to a large-scale transference of population and consequent human suffering? If you do, what steps would you suggest for its prevention?"

The question can only be answered by counterquestioning. Do peoples speaking languages other than the language of the Province continue to reside in the provinces of U.P., Bihar, Bengal, Assam, Orissa, etc., or has large-scale transference of population become necessary from those parts? Unless there was reason to believe that the average standard of civilisation and culture, of tolerance and decency, of political reasonableness and administrative competence was distinctly lower in Andhra, Karnatak, Kerala, Maharashtra than in other Indian provinces the question should not have been asked. However carefully the boundaries are drawn, linguistic minorities will continue to exist in all states. The creation of linguistic states may bring about a change in the language of administration or of instruction in state institutions in a small number of localities; but in no case will it affect the political status or economic life of any citizen. Fundamentally, the citizenship of the Union is one and the liberties and the rights guaranteed by the Constitution and the law, the same everywhere. All states would also pursue a uniform policy towards their linguistic minorities. The conditions would change only if it was felt that a linguistic minority threatened the existence or proper functioning of the state. For example, if it was seen that the presence of a linguistic minority within a state leads to a loss of territory by the state the very basis of the federal Union would be upset and the resulting situation may be difficult. No state would in the eventuality, be willing to accept new linguistic minorities and the problem of the settlement of refugees may thus take on a serious complexion. Also, the linguistic minorities already settled in different parts of the Union may, perhaps, find the regional population less tolerant than otherwise of their continued existence in the region.

Another ground on which special treatment of Bombay is advocated is that it is a major port and a place of high industrial concentration. Whatever the degree of economic importance of any locality there is no reason why in a federation it should be put under central administration. The division of subjects in a federation gives to the federal government powers relating to subjects of general economic importance throughout the area of the federation. When matters such as major ports or air-fields or certain basic industries are within the purview of the Union, federal power is equally exercised whether the port, the air-field or the industry lies within the area of a state or within an area directly administered by the federation. The division of powers in a federation provides for all the subjects necessary for central administration by including them among federal subjects. The direct federal administration of an area increases the powers of the federation only in the direction of powers ordinarily given to the state governments and to local authorities. The effects of central adminis-

tration of an area are chiefly: (1) the denial of integration with the surrounding region to the federally administered area, and (2) the denial of participation in state-self-government to it. This is because a centrally administered area is not an authority on the level of autonomous states but enjoys an administration which has the status of a local authority of the Union Government. A third consequence will, of course, be that because of direct administration by the Union the federal language will predominate in the area and the regional language will to that extent be suppressed. This fact will also have repercussions, in related directions on educational, cultural, etc. activity. It is obvious that the importance of the economic activities in a place or of the concentration of the activity in a centre has nothing to do with these consequences which follow from being a centrally administered area. The economic and political interests of the Union Government in such localities are guaranteed by the appropriate provision regarding Union powers. No additional guarantee or safeguard in these respects is introduced by making the area a directly centrally administered area.

However, if this plea for making Bombay a federally administered area is accepted, it must logically hold good in other instances and extend much beyond the single case of Bombay. Not Bombay alone but all other centres of economic importance must be similarly treated. All the major ports such as Calcutta, Madras, Vizagapattam and any other major ports that may be developed later and all centres of industrial concentration such as Ahmedabad, Kanpur and Jamshedpur must be made centrally administered areas in the same manner. Without such a logical extension of the plea it would be seen to have no other significance than a device to cripple deliberately the economic strength and the political and social life of Maharashtra.

It is sometimes argued that the whole question might be determined by a plebiscite. Presumably, the plebiscite would be taken on the issue as to whether Bombay should be retained in Maharashtra or whether it should become an autonomous unit or a centrally administered area. The proposal for a plebiscite raises two issues. In the first instance it raises the question of the attributes required of an area or a region before the demand for a plebiscite in relation to it is justified. It would obviously not be open to the inhabitants of any area or locality to demand a plebiscite for being constituted separate autonomous or centrally administered area. A plebiscite in relation to the formation of an independent territorial unit and to autonomous status in a federal union can be demanded only by the inhabitants of a region which has the size and resources required for becoming an autonomous state. In a federal union such regions as can claim to be autonomous states within the federation on a parity of status with other existing states can alone put forward such a plea. The demand for a plebiscite can, therefore, be conceded only in respect of an area which

is large enough, whose resources are diverse enough and whose interests are distinct enough from the neighbouring areas.

Autonomy of status which can be claimed by a politically homogeneous and internally integrated region can in no case be attributed or conceded to a city. A city is the result of the growth of the specialization of economic activity within a region. Not the city by itself but the city with its surrounding area constitutes an integrated whole. The fact is, no doubt, often ignored by dwellers in the city. This especially happens when the exploiting classes in the city are different from and anti-pathetic to the population of the rural regions which the city exploits and prospers on. But the notion that the city concentration can or should be politically and economically separated from the area on which it depends and which is dependent on it, is entirely foreign to modern political, economic or social theory. There is on the contrary an insistence at present, on the integration of and a proper balance between interests and development of a city and the rural area, and recent students of sociological problems of the city have insisted that the only way of correcting the complex evils of metropolitan agglomeration is by proceeding in the direction of decentralization and regional unification. To claim the right to separate, for a city, runs counter to these ideas and derives from European medieval concepts. It should be remembered that with the revival of medieval concepts there would come about a revival also of medieval conflicts.

The suggestion for a plebiscite is inept. It is also no more than a palpable ruse. Those who put forward proposals such as that of a plebiscite proceed on the expectation that the large new and old floating population of Bombay which consists largely of speakers of languages other than Marathi would vote for the non-incorporation of Bombay in Maharashtra.

The composition of the population of the city of Bombay in 1939 was described in the following terms: "The city has a sub-stratum of original inhabitants; but it is largely a city of immigrants. A portion of them has made Bombay a permanent place of its residence; to another portion it is only a place of work to be left when it becomes unsuitable."<sup>3</sup>

Since this was written an enormous addition has been made to the floating population of the City and it is unthinkable that decisions regarding permanent territorial arrangements should depend on the vote of such a population. The vote of such a population would have no political significance or moral weight. A vote in which the speakers of languages other than Marathi decide the fate of the Maratha territory of Bombay places the non-Marathi elements in the position of eating their cake and having it too. The integrity of linguistic territories of these other elements is not threatened by their vote. The centres of the economic life of their states are not to be cut off and formed into autonomous units or to become federally

<sup>3</sup> *Report of the Rent Enquiry Committee, 1939, Vol. I, p. 5.*



administered areas. The vote might have been conceded to have had significance had it been a vote not only about cutting off Bombay from the territory of Maharashtra but also if it could have at the same time meant a similar treatment of Ahmedabad, Madras, Vizagapattam, Calcutta, Jamshedpur, Kanpur, etc.

To sum up, there is no valid ground on which the separation of Bombay city from Maharashtra can be justified. The city is a part of Maratha territory and is the focal point of the economic life of Maharashtra and the largest centre of the intellectual and cultural activities of the speakers of Marathi. Any control that it is necessary for the Union Government to exercise over it because of its economic importance may be exercised through the same powers and in the same manner as for other similar centres. The need for such control could not justify separating the City from its hinterland. No claim to autonomous political status can be sustained by a City and it is absurd to suggest that the vote of its floating population can decide territorial arrangements regarding the new states in India. Bombay city is an integrated part, economically and politically of the whole of the region of Maharashtra and must be treated as such in the constitutional set-up of the future.

### III

We may now turn to a consideration of the future of Bombay and of the manner in which the many difficult problems of Bombay and its life could be tackled on the political and administrative plane. In the current controversy regarding the status of Bombay little appreciation is shown about the real position. This is itself the result of the unnatural divorce, in thought and policy, of Bombay from its surrounding region. There is always an attempt, conscious or unconscious, to increase the importance of Bombay, to concentrate wealth and power within it and to treat it as a unit apart. As a result, the problems of Bombay are made more and more difficult and the people of the surrounding regions made more impoverished and all their resources ill-used or neglected.

A first approach towards understanding the problem of Bombay may be made by comparing it with the problem presented by London. The Royal Commission (Barlow Commission) on the Distribution of Industrial Population of Great Britain includes in its general discussion of city problems, an extract from an American report in which the following sentences occur: "The concentration of so large a proportion of the urban population in extremely limited areas is wasteful of resources, time and energy. . . . Provided the urban community possesses a fundamentally sound economic basis and has a site the disadvantages of which are not too costly to overcome, the Committee is of opinion that the realistic answer to the question of a desirable urban environment lies not in wholesale dispersion but in the

judicious reshaping of the urban community and region by systematic development and re-development in accordance with forward looking and intelligent plans".<sup>4</sup> In discussion how these general principles are to be interpreted in relation to particular cities the Commission points out that what is important is not to determine an absolute figure as to population or area but to express size always as a function of the social relationships to be served. While not recognising any necessary limit to the size of the urban unit the Commission emphasizes that "all towns including the largest units, shall be properly planned, or if not so planned shall be re-developed so as to secure better provision than usually exists at present against the evils of overcrowding, lack of sunlight and facilities for recreation, fatigue and waste due to congested traffic, and so on."<sup>5</sup> It maintains that it is not so much concentration as congestion that must be sought to be abolished. Though it suggests no simple formula for determining where congestion of population and industry exist it points to indexes of population per acre, congestion in relation to housing as determined by certain tests laid down by Housing Acts, and also to such other factors as the acreages occupied by houses, factories, permanent open space, transport difficulties, cost of sites, etc. It considers traffic congestion as a good practical indication of the presence of congestion of industry.

In analysing the problem of London, in particular, the Commission found that two overriding causative factors emerged, namely (i) the increasing population and the industrial development of Greater London; and (ii) the increasing degree to which the place of residence of the members of the industrial population became separated from the place of their work and the general absence of co-ordination in the location of housing and industry. Regarding the latter the Commission remarks that obviously the distance between home and work place cannot continue to increase indefinitely. 'Sooner or later the burdens of both cost and time must bring the process to an end. Even now cost is a serious burden'.<sup>6</sup> In illustrating the existing (1940) difficulties in London the Commission give certain statistics which show the distances from which large numbers of people daily travelled by mechanical transport to work. Similar figures are not available for Bombay. There is little doubt, however, that conditions in Bombay regarding the problem of separation of work place and residence and the cost of travel to work are very acute.

The examination of the problem of London by the Royal Commission led it to the conclusion that the drift of industrial population to London constituted a social, economic and strategical problem which demanded immediate attention and the Commission recommended that the National

<sup>4</sup> *Royal Commission on the Distribution of the Industrial Population, Report 1940*, pp. 154-55.

<sup>5</sup> *Ibid.*, p. 156.

<sup>6</sup> *Ibid.*, p. 173.

Industrial Board, which it recommended be set up, should be vested from the outset with powers to regulate establishment of additional industrial undertakings within the London area. The Royal Commission reported in 1940. The considerable amount of planning activity in relation to London that has since been in evidence has all accepted the basic analysis of the problem of London made by the Barlow Commission. The Greater London plan prepared by Sir Peter Abercrombie proceeds on assumptions among which the main are (1) the recommendation contained in the Barlow report that no new industry shall be admitted to London and the Home Counties except in special cases; (2) the decentralization of industry from the congested centre; (3) that the total population of the area of London and Home Counties will, as a result of the Barlow recommendation, not increase but on the contrary will be somewhat reduced; (4) that new powers for planning will be available including powers for the control of land values.

In relation to industrial location, which after all is the chief factor in causing concentration or congestion of population, the proposals of the Abercrombie Report make further detailed assumptions some of which are instructive. These are (1) that the Greater London area will be normally banned to new industry and to any but minor extensions of existing enterprises; (2) that the maintenance of a prosperous agricultural industry is intended, which will give stability of employment and good wages to the residents of market town and villages, coupled with a radical improvement in living conditions there, thus at least preventing a further drift of population to the bigger towns. The memorandum (1947) of the Ministry of Town and Country Planning on the Greater London Plan also proceeds on the assumption that the population of the Greater London Region should not increase above the 1938 figure. Mr Lewis Mumford criticises the Greater London Plan on the ground that even the 1938 figure as much too large.

Statistical information relating to Bombay city in respect of the various factors mentioned by the Barlow Commission is not, at present, available. But it is obvious that regarding most of these factors, existing conditions in Bombay city are bad, perhaps, immensely worse than those in London. Physical lack of housing even of no standard, traffic congestion of a degree, perhaps, unparalleled elsewhere, enormous distances from which people are known to travel to work, the cost of such travel, the heights to which cost of sites and housing have risen, all these point to the problem of Bombay being one of the worst in the world. One aspect of the situation, housing in Bombay, was examined by an Official Committee ten years ago. The description by the Committee of Conditions<sup>7</sup> at the time makes unpleasant reading. Even in 1939, conditions in Bombay compared unfavourably with those in London and, in the opinion of the Committee, the pros-

<sup>7</sup> *Report of the Rent Enquiry Committee, Vol. I, chapter II.*

perity of the city meant "the prosperity of a few, leaving the vast majority of the people to rot in abject conditions."<sup>8</sup>

The main responsibility for this problem of Bombay is of its original site whose disadvantages are so large that it is almost impossible to overcome them at any cost. Attempts which have been made, in the past, to overcome the disadvantages of the original site have made little impression on the fundamental problem. They added, at great cost, a small area to the accommodation in the commercial centre and for the residences of the wealthy. They could not, however, expand the area significantly nor solve, even partially, the transport problem created by the location of the commercial and financial centre at the end of a narrow island. The addition of Salsette island to Bombay island and the incorporation of the two in a Greater Bombay cannot change the fundamentals of the problem of Bombay. The two islands together yet form a comparatively narrow block of land with the nucleus placed at its narrower end. The land available for expansion of the City is many times less in extent than if the centre of the City had been in a landblock which extended in all directions radially from the centre. It is a great deal less than if a semi-circular expansion from the centre were, at least, possible. In positions such as that of Bombay the lines of transport are reduced to a very small number and the length of the transport arms is lengthened enormously from the centre for given numbers of population. The original site is thus extremely unsuitable for the location of a large industrial population. The problem of housing and transporting the population of the size reached in 1938, at even low standards, was already insoluble at that date. Large numbers which have been since added to the population make it completely intractable.

Bombay city and its environs, though containing a much smaller population than Greater London, present a problem which is more acute than that of Greater London. The only approach which holds out a hope for an eventual solution is that adopted by the Greater London Plan. In the case of Bombay the prescription will have to be more drastic and the time factor is more pressing; the steps required appear, however, to be similar. They are (1) placing an immediate ban on the opening of new or expansion of old industrial establishments within Greater Bombay and beyond and (2) the preparation of a plan which will provide for a large movement of industry and a transfer of population from Greater Bombay so as to bring down the population of the total area to, at least, the 1941 figure and a similar movement between Bombay city and the outer Bombay region so as to relieve the congestion in the most crowded areas in the City to some extent. The surplus that will have to be transferred in such a plan, is today so large that the ban on new establishments must apply not only to what is usually termed Greater Bombay, but also to such areas as the Kalyan-Ambarnath area.

<sup>8</sup> *Ibid.*, p. 12.

It does not appear that this root problem of Bombay is receiving any attention. Government seems to be encouraging the location of further factories in the Bombay area and adding to the problem of population within that area. So long as there is an unwillingness to examine the problem of Bombay along lines indicated above, the problem will continue to be intensified. Such intensification is evidently proceeding apace. It has, for example, been reported that the valley of the Ulhas river which is as yet, in the main, an agricultural area and which because of assured water supply has great potentialities in the direction of increased production of rice and protective foods has already been pledged to industrial concerns of such order of national importance as rayon factories. So that, instead of doing all that government can do, at least, not to spread the blight of Bombay in the vicinity and to maintain the existing green and agricultural belts, an exactly opposite course is being followed. Government is also planning to spend and is spending crores of rupees in trying in vain, to alleviate, in some degree, problems such as those of the milk supply and housing in Bombay. The amounts spent are entirely disproportionate to the resources of the country, the numbers involved, or the results expected. These crores if spent in, say, major irrigation or other productive works are capable of immediately increasing production within the country and bringing about some betterment of living conditions in villages. Their expenditure in Bombay, at a time when the further drift to the city is not stopped and no plan regarding industrial location is under contemplation, is a sheer waste of money. The chief explanation of this attitude on the part of Government seems to lie in the current approach which derives from British times and which looks at the problem of Bombay as distinct from that of its hinterland.

It is no doubt true that the accentuation of the problem of Bombay during war time and owing to the influx of refugees was not of Government's seeking; but it is also true that Government appears to be following a wrong policy relating to the location of new industrial establishments in Bombay and the settlement of refugee and other new immigrants within the already crowded area of Greater Bombay. As the Barlow Commission pointed out nothing succeeds like success and natural forces attract industry, labour and immigrants to a conurbation like Bombay.

"The obvious attractions which Greater London possesses as market, a centre of potential labour, a distributing centre, and as an area in which electrical power is universally available, inevitably tend to attract many consumers' industries to locate themselves in or near to it. The extra employment provided by the new factories further adds to the importance of the area as a market. Thus higher industrial activity and purchasing power are induced. The magnetic pull on industry is strengthened; and, as respects the industrial population, wide opportunities of employment add to

the attractive power which London naturally exerts through the advantages which it possesses as a Capital City."<sup>9</sup>

This explains why unchecked private activity keeps on adding to problems of congestion in metropolitan areas. It cannot, however, explain why Government has shown no awareness of the problem of Bombay and has acted as if it did not fear its continued worsening. The neglect by Government of this problem or rather the non-awareness on the part of Government that such a problem exists, is evident even in the recent reports of the Provincial Industrial Committee and its Location Sub-Committee which contemplate with equanimity a further large addition to the industrial complement of the Bombay area. Any suggestion that industry could now move with great advantage to valleys and other areas distant from the overgrown city, where electric power and water are available cannot be appreciated until vested interests and public leaders insist on looking upon all suggestions regarding moving industry away from Bombay as being contrary to the interests of the City.

A Government which looks at Bombay in isolation would, of course, act in the way in which the Government acts at present. It would not discourage the growth of the city as it would look upon the increasing size as adding to the importance of the city. It would not count the cost in terms of physical and moral degeneration of the population because this would bear fruit chiefly, not in the city itself but, in the outer areas which feed it. It would be unaware, when dealing with the city, of the problem of impoverishment of the rural areas and smaller towns from which the city draws away men and economic activity. It would not count the comparative cost of the efforts at tinkering with the problem of the city as it would have the resources of the whole province to draw upon. With increased size the surplus wealth concentrated in the city grows and makes fine showing, the glitter of which distracts attention from the appalling squalor and degradation of the conditions in which the vast bulk of the city-dwellers live. The conditions of life in the city have the greatest demoralising effect on the people of Maharashtra. They form the bulk of the poor who migrate to it with their womenfolk. Other elements who may be permanent residents, are proportionately smaller in number and are, on an average, better off than the Marathas; and the other groups of temporary immigrants consist mostly of adult males of working age. The incidence of the high infant mortality which is the cumulative effect of conditions in the city is borne chiefly by its Maratha population.

The only remedy for the existing condition is compulsory decentralization of industry according to a plan which integrates the economic life of the City of Bombay with the development of the whole of its hinterland. The chief problem in this context is that of industrial location. The main factors determining industrial location in the entire region are transport

<sup>9</sup> *Royal Commission, Report, op. cit., p. 170.*

facilities, availability of water and electric power and availability of labour. The advantages of a major port are obvious and concentration near it is no doubt natural; but granted good transport facilities industry may find that the distance from the port and the transport costs flowing from it are amply compensated by other advantages, especially the availability of land and its lower cost. Electric power and water are immediately available on a fairly large scale, and potentially available even to a greater extent on both sides of the range of Ghats stretching south of Bombay right up to Kolhapur and beyond. The whole of this area lies within Maharashtra. The reserves of industrial labour near Bombay are also all from within or not far distant from the area where electric power and water are available. Labour from Gujarat, Rajputana, Kathiawar etc. has many nearer centres of industry to which it is attracted and it does not usually migrate so far south as Bombay. The centres from which labour is attracted to Bombay, outside Maharashtra, are all more than at least 500 miles distant from Bombay. In many cases the distances are much larger. It is extremely wasteful, from the national point of view, to encourage the migration of labour from such distances, with its attendant economic and social costs and attempts must be made to find employment for the population of these distant areas in centres nearer to their Home regions. The problem of the location of industries to be transferred from Bombay and around is a problem that must, therefore, be considered directly in relation to the available sites in either the Konkan or on the Desh districts of Maharashtra.

The future of Bombay city is, in the long run, bound up almost exclusively with Maharashtra. The wide extent of its area of influence today is merely the result of arrested developments in other parts of the country. In due course much greater facilities for maritime trade will be available, than at present, south of Goa and between Surat and Cutch. This will relieve the heavy concentration of this trade in Bombay. Similarly, industrial development will soon take place in many of the provinces which are at present backward in this respect. This will reduce the industrial importance of Bombay for those parts and also stop the flow of industrial labour from distant regions. Bombay's all-India importance for certain specialised activities may remain; but it will exist chiefly as the port and economic centre of Maharashtra, which is the role indicated by its geographical location.

This examination of the problem of population and industrial location, which is the problem of all big cities, will show how artificial it is to try and separate the political and economic government of Bombay from that of Maharashtra. As pointed out above, if such a step is forced on the people of Maharashtra conflicts will arise, conflicts which may give rise to most serious problems both for Bombay city and Maharashtra. Any proposal for the separation of Bombay from Maharashtra will immediately give rise to bitter disputes regarding boundaries and there would be no objective

tests by which these could be settled. The boundary will be purely artificial. Also, in this event, the scheme for a Greater Bombay will be looked upon only as a means by which as large an area of the territory of speakers of Marathi as possible is sought to be detached from Maharashtra. The Greater Bombay Scheme then becomes a step towards making feasible the proposal for the separation of Bombay from Maharashtra and will naturally meet with determined opposition from the people of Maharashtra. But even a Greater Bombay will not solve all problems; for the water and electric power of Bombay may have to come from distances which are outside the region of Greater Bombay.

A move towards a Greater Bombay is, however, a move in the right direction if it leads to no more than a system of graded authorities devised to tackle properly the great problems created by a metropolitan area. The problem of administration and of regulation of economic activity in relation to a large concentration of urban population has a number of aspects. In the first instance, there is the problem of the administration of the nucleus of concentrated population. This may be defined as the area of Bombay city. Secondly, there is the problem of administration of the Suburban areas and part of the rural area which it is found necessary to include within the boundaries of the Greater City. There are many disadvantages arising from an attempt at combining the administration of suburban areas, especially if they consist of a number of distinct and separate nuclei, with the administration of the city. The way out may be found by setting up a number of separate municipal authorities, where localities possess distinct individuality and are large enough, and a general Local Board which administers the more dispersed areas. The City Corporation and the local authorities of the suburban etc. areas will be embraced within a single Greater Bombay authority. There is, however, always the problem of co-ordinating the activities of even the neighbouring areas of the Greater City with those of the authority of the Greater City. Among the subjects which such an overall co-ordinating authority or advisory body for a large area should control, are especially transport and town planning. Such an overall body if set up, would also be the general planning authority or advisory body for the whole area. At the same time the master plan regarding the development of transport and electric power or the location of industries would be derived from the plan for the whole of the region, in which the plan for the Greater City would be fitted up.

The main stages by which the problem of Bombay has to be tackled appear, therefore, to be as follows: (1) a ban on the establishment of new or expansion of old industrial undertakings within a distance by road or rail of, say, 50 miles of the Fort area; (2) the preparation of a plan of industrial location for Bombay and the whole of its hinterland; (3) a detailed programme which will indicate the steps by which the transfer of



population and industry from Greater Bombay and the movement of dispersal from the most congested parts of Bombay city will take place; and (4) the setting up of an authority for a large area which will have overall powers regarding planning and also regarding major transport and housing. If these steps are taken and if the agricultural potentialities of the region within say 80 to 100 miles of Bombay are actively developed the problem of Bombay may be on the way to its solution.

This will not happen if Bombay is separated from Maharashtra. Because in that event an overgrown congested city where vested interests rule and whose population feels itself distinct from and superior to the people of Maharashtra will look across and face a sullen, impoverished and resentful countryside which will refuse to co-operate with any settlement of the city's problem and will attempt at the same time to build up, with little hope of success, another central nucleus of its own.

#### IV

Finally, it is necessary to give thought to the reasons which lead some elements and interests in Bombay to demand the separation of Bombay from Maharashtra. The demand appears to be partly based on apprehensions which it may be possible to allay in some measure. Partly, it is also based on hopes and fears of particular interests. The demand for separation comes from sources which are all non-Maratha. The Marathi-speaking peoples are united in their insistence on the retention of Bombay in its proper place in the political and economic set-up of Maharashtra; barring a few eccentrics whom Maharashtra always produces, the demand from Maharashtra may be said to be unanimous. The active support to the demand for retention of Bombay in Maharashtra given by the Maharashtra Chamber of Commerce further indicates that not only the Marathi-speaking capitalists and traders in Bombay but also the large body of non-Marathi vested interests in Maharashtra outside Bombay, support the demand for the retention of Bombay in Maharashtra. The Maharashtra Chamber of Commerce has a large membership of industrialists, traders etc. who though settled in or operating in Maharashtra are, by origin, speakers of languages other than Marathi.

It is difficult to analyse carefully the grounds on which the demand for separation of Bombay City from Maharashtra is being justified, because it has not been yet put forward in a cogent form by any responsible person or body. The non-Maratha vested interests in Bombay appear to be the most important among those who demand separation. It seems to be claimed by representatives of these interests that the major part in the development of Bombay city has been taken by non-Maratha communities. In consequence, they assert that even though Bombay may be Maratha territory, it is right to separate it from Maharashtra. It is difficult to interpret what is precisely

meant by the term 'development'. In a general way, the development of the island of Bombay was primarily the work of the English. A number of other communities, chiefly Indian, no doubt helped the English; but they brought in neither new technique nor equipment and the capital they invested was also the fruit of exploitation of local resources. They were, almost wholly, the assistants or the imitators of the English. It may be that among these assistants and imitators the non-Maratha communities were more prominent than the Maratha communities. But whatever the historical facts regarding comparative shares in this aspect of development, they have nothing to do with political rule over a locality or its inclusion in or separation from its native territory. The English developed, in the main, not only many localities but large regions in India and the European powers have developed many regions and countries in South-East Asia. In neither case, has the perpetual political rule of these lands or regions by those who developed them or the claim to separate particular localities such as the ports or industrial areas, from their native regions as having been intensively developed by the European powers, have been sustained. The contention that because in the "d veloppement" of Bombay city some non-Marathas took a special share, the city should be cut off from its native region following the wishes of these communities, is of a type which even European capitalists no longer dare to put forward in relation to their more genuine work of development of resources in the Asiatic countries.

The non-Maratha vested interests, no doubt, feel that if Bombay is separated from Maharashtra, it will remain effectively in their hands. The permanent residents in it form a comparatively small proportion of the total population and are largely dependent on these vested interests who are large employers of intellectual and manual labour. The enormous floating population has no roots, is constantly changing in its composition and is easy to influence in a variety of ways. The desire for separation on the part of vested interests, perhaps, also springs from the belief that the large resources which are the results of the concentration of economic activity of the whole region in the city will be available for the development of the city alone. Thus they would be able not only to drain into the City all the resources of the countryside but also prevent any measure of benefit that might accrue to the countryside from the expenditure of a portion of tax revenues raised from the City. It is probable that the vested interests are also actuated by some fears. They may fear that Maharashtra with its fundamentally democratic traditions may formulate a more strict regulatory regime in economic affairs and follow a more liberal social policy than would suit their inclinations or interests. There is little that can be said regarding these arguments, hopes or fears of the vested interests except that if they prevail, it would be clear that the political status of the Marathas in the Indian Union is not on a par with that of the other linguistic groups.

The proposal of the vested interests, supported by some non-Maratha intellectuals who talk vaguely of "cosmopolitanism" to separate Bombay city from Maharashtra has close resemblance to the demand for treaty ports, presented to China by the European powers. There was unanimity amongst European powers that treaty ports ought to be demanded from China and the demand was, no doubt, made by all of them in the interests of universal progress and peace and for the promotion of "cosmopolitanism". Such agreement as may exist among the non-Marathas drawn from various regions regarding the reasonableness of separating Bombay city from Maharashtra is on the same plane of disinterestedness. It appears curious to the Maratha that it is only in Bombay that this experiment of "cosmopolitanism" is proposed to be made. The economic centres and political capitals of the other linguistic regions evidently do not require an equal dose of it. The Maratha may, in the circumstances, be excused if he refuses to be flattered by the compliment implied in the proposal to make an experiment in "cosmopolitanism" on his territory.

Apart from the non-Maratha vested interests, there may be elements in Bombay city who may support its separation from Maharashtra because of certain apprehensions. They may be characterised, I hope without offence, as coming from the intellectual proletariat from outside Maharashtra. They, perhaps, fear that their chances of employment in Bombay may be jeopardized, if Bombay forms a part of Maharashtra. This fear has no foundation whatsoever. It must be emphasized that the political and economic rights of citizens of Bombay would in no way change because of the retention of Bombay in Maharashtra. The right to settle, the right to practise any profession or enter any employment, and the right to own property and to dispose of it will be enjoyed by any Indian citizen coming to Bombay in the same manner as by the indigenous Bombay and Marathi-speaking population when Bombay forms part of the State of Maharashtra. In the sphere of private industry and commerce, for example, the conditions of employment offered would, in no respect, change with the creation of the new state. There would neither be prohibition of migration, settlement, or of following any occupation nor any differentiation between Marathas and non-Marathas within the territory of Maharashtra. The guarantee depends not only on the liberal traditions of the Marathas but also on the constitutional safeguards that would be embodied in the Union Constitution.

Not only would the political status and economic rights of individuals not undergo any change because of the incorporation of Bombay in the new autonomous State of Maharashtra but also the present system of governance of the local affairs of Bombay would not be changed in any way. The Bombay City Corporation would not only not suffer any loss of powers but would, because of the general trend towards decentralization in Maharashtra, get an accession of powers in many directions. As indicated in the

earlier section, a large planning authority may also have to be set up for an area larger than even Greater Bombay. In all these authorities the residents of Bombay, whether Marathi-speaking or not, will play the major part. Local self-government, in the most liberal sense, would be guaranteed to the people of Greater Bombay and within the framework of the larger plan of regional development, the detailed development plan of Bombay would be entirely in the hands of the Bombay population.

There is one direction in which, no doubt, certain transitional difficulties will have to be faced by immigrants in all states, owing to a transformation which is not local in Bombay or in Maharashtra but will be common throughout India in the near future. With the reduction in the importance of English in Indian administration, one of the factors which made for ease of movement of the intellectual proletariat will vanish and migrants from one linguistic state to another will not, in future, be able to neglect the regional language as they used to formerly. The regional language will more and more predominate in state administration and a knowledge of it will become essential to most who want to follow any employment within the region. This must be considered to be, on the whole, a beneficial movement. Hitherto, in spite of large movements of intellectuals from one region to another, there has arisen no effective understanding between various parts because, with the prevalence of English, the migrants did not feel called upon to familiarise themselves with the language, habits and ideas of the people of the regions to which they had migrated. The new requirement, however beneficial in the long run, may, no doubt, create some difficulties in the transitional period. It may also create hardships wherever large linguistic minorities are permanently settled, unless a liberal linguistic policy is followed by all the new states.

In this connection, attention may be drawn to a Resolution recently issued by the Government of Bombay, on government policy regarding instruction in languages other than the regional languages in the province. It lays down that the medium of instruction in primary schools maintained by the State within the province should be the language of the region concerned and that all primary and secondary schools privately run should make provision for teaching the regional language compulsorily so as to be eligible for grants-in-aid from the State. It is presumed that all members of the Bombay Cabinet belonging to the three linguistic regions within the province subscribe to this statement of policy.<sup>10</sup> The Government Resolution makes clear how the linguistic problem cannot be postponed even if the linguistic states do not immediately come into existence. As a matter

<sup>10</sup> It may be noted parenthetically that if Marathas had been able to follow such a policy in the past, the problem of the non-Maratha claim in Bombay would not have arisen in the manner in which it has now arisen. Their present plight in relation to Bombay is, therefore, another result of British rule during which regional interests were naturally completely ignored.

of fact, it is likely that in the absence of a careful demarcation of linguistic boundaries the operation of the Resolution will create not only hardships but genuine grievances in districts with mixed populations. The Resolution frames a policy that can properly operate only in a state created on the linguistic basis and presumably anticipates the event. All states in India will no doubt follow a policy regarding the language of instruction in schools similar to the one laid down in the Bombay Government Resolution.

This Government Resolution which so emphatically enunciates a relation between the region, the language and the educational system itself, however, reveals the influence of existing circumstances by making a very peculiar statement regarding Bombay. The Resolution cites Bombay city as an instance of area "with more than one regional language." The expression "areas with more than one regional language" makes non-sense except perhaps, in localities on the border of two linguistic areas whose boundaries have not yet been drawn. The regional language of a locality in the midst of a linguistic region cannot be doubted. The regional language of Bombay city is Marathi and no other just as much as it is the language of, say, the Malegaon region. The statement regarding Bombay in the Government Resolution is evidence of a lack of clear thinking which is unfortunately very common in relation to this question; it also makes clear the dangers involved in a separation from Maharashtra of the area of the City. The proposition regarding the regional language made today regarding Bombay city will be made to apply tomorrow to Greater Bombay and to any other extension of the sphere of Bombay. Once the claim of separation is conceded it will amount with every extension of the city to a consent to lopping of the contiguous area and consequently a constant automatic reduction of the territory of Maharashtra.

While it is necessary to protest against the statement that the Bombay city has more than one regional language, it is equally necessary to take account of the fact that large numbers of speakers of languages other than Marathi have settled in that city. It will, therefore, be necessary to add to the policy laid down in the Government Resolution an exception in relation to certain circumstances in which the policy would have to be partially modified. In considering the general problem of linguistic minorities, it will have to be laid down that whenever a substantial linguistic minority is settled in a locality and forms, say, more than 20 per cent of its population, certain special privileges regarding the study of the language of that minority will be afforded in private schools and even in the State system of education. The rules under the Primary Education Act today provide for the opening of primary schools for all significant linguistic elements within the population. Present policy in this regard need not be changed except to make provision for compulsory teaching of the regional language. When the linguistic minorities become large, the principle accepted for primary education can and should be extended to higher stages of education. The

language of significant linguistic minorities should receive special consideration in the educational system provided that the primary requirement of a minimum knowledge of the regional language is satisfied. In the case of larger linguistic minorities, the language of the linguistic minority may also be given some place as an additional language for use in local affairs and local administration of the locality where the linguistic minority is specially concentrated. The genuine apprehensions regarding unnecessary inconvenience and hardship of the bulk of, say, the speakers of Gujarati in Bombay, because of the incorporation of Bombay city in Maharashtra, may and should be met on these lines. There is no reason why even when Bombay city becomes the capital of Maharashtra, the large elements of Gujarati and other settlers in Bombay should suffer any inconvenience or hardship. It is up to the Marathas to recognise the contribution which they have made not only in Bombay city but also in other regions of Maharashtra and to allay their apprehensions with a liberal policy in relation to language in education and administration in localities where they have a concentrated population. A liberal policy in these respects is an essential requirement for the peaceful functioning of the federation.

Before concluding this statement it may be proper to refer to certain charges such as that of parochialism or even of aggressive intent made against the people of Maharashtra because of their stand regarding Bombay. It must be confessed that the Maratha is perplexed and bewildered by these, in his opinion, wild accusations. He does not feel that engaging in an attempt to create a well-knit community of three crore human beings, is adequately described as parochialism or that calling what is one's own territory emphatically one's own is indicative of aggressive intent. During the last year he has assisted in the acquisition of Junagadh for Saurashtra and Maha-Gujarat and is at present participating in the attempt to retain Kashmir for the Kashmiris. Both these enterprises have obtained the almost unanimous backing of the leaders of the country. In consequence, the Maratha feels that he is merely performing a rightful duty when he asserts, politely but firmly, that he will not allow the State of the Marathas to be deprived of, not only what is indubitably Maratha territory but also the economic nerve centre of Maharashtra.

## POWERS OF THE MUNICIPAL CORPORATION OF THE CITY OF BOMBAY AND GOVERNANCE OF THE METROPOLITAN AREA\*

It has been suggested in the memorandum of the Samyukta Maharashtra Parishad that one of the ways of meeting the apprehensions of minority interests in the city of Bombay would be to increase the powers of the Bombay City Corporation and to make it more largely autonomous than at present. This increase of powers of the Corporation could come chiefly through handing over to the Corporation certain powers which are at present exercised directly by the State Government and through increasing the financial resources of the Corporation. Most powers which directly affect interests of large business are today within the purview of the Union Government. It is neither possible nor desirable to think of any of these as being transferred to a City Corporation. Among the economic powers exercised by the State whether in virtue of the State or the Concurrent list most cannot be transferred to a City Corporation either because they do not pertain particularly to large cities or because the exercise of the powers entails governmental regulation of economic activities over areas much larger than a city. Such powers are for example, those relating to agriculture, forests, fisheries, mines, industries, trade and commerce, economic and social planning, monopolies and combines, trade unions, social security, price control etc. Economic powers that can appropriately be transferred to the Corporation appear to be only a few, as for example, land tenures within the city, including landlord-tenant relations and gas and gas works. The Corporation already exercises powers regarding internal communications; these may be fully extended, if found necessary. The Corporation may also be given powers in relation to relief of disabled and unemployable but this may be found to be an onerous burden by the Corporation in view of large proportions of such persons in the population of an industrial city. The scope for the extension of the powers of the Corporation on the side of education, health and general development activity appears more considerable. A very important extension of the powers of the Corporation could be in the direction of education. The Corporation could be given full powers relating to secondary education, including technical education up to that stage and could also be given the related powers of vocational and technical training of labour. University education would

\* Published by the Samyukta Maharashtra Parishad, Bombay.

be within the purview of the University of Bombay. The jurisdiction of this University is now confined to the city of Bombay and its Constitution provides for the governance of the University being in the hands of elements who mostly represent educational and other interests from within the population of the city. Under the proposed arrangements all educational activities within the city will virtually be placed under the control of the population of the city. A number of powers relating to cultural activities, are already enjoyed by the Corporation. If necessary, the powers of the Corporation could be further extended in relation to such matters as theatres, dramatic performances, entertainments, etc. In a similar fashion the powers of the Corporation could be increased, if necessary, in relation to the public health matters. The Corporation could be given wider powers regarding, e.g., adulteration of food or collection of vital statistics. All hospitals etc. in the city could be transferred to the Corporation, except those connected with educational institutions catering for a wider area, as for example the Grant Medical College and the J. J. Group of Hospitals, the Potdar Ayurvedic College and Hospital and the Dental College.

A further widening of the powers of the Corporation in another direction that it is possible to suggest is by transferring the City Police to it. This power is exercised by some cities in the U.K. and the U.S.A. However, in India, the administration of Police in a city like Bombay is closely integrated with a large surrounding region; police administration has also considerable political overtones in this country. In view of these considerations it may be unwise to vest control over police in a city corporation. Control over police has also little connection with either business interests or the interests of cultural or linguistic minorities in the city.

A widening of powers and functions of the corporation must be accompanied by a widening of its resources. The present expenditure of the City Corporation according to the budget estimate for 1954-55 is in the neighbourhood of Rs. 10 crores. It seems unlikely that the Corporation can further draw on its sources of finance. For many years past there has been a persistent demand by the City Corporation to increase its resources either by a lump sum grant or by transferring receipts under some state revenues such as entertainment tax, electricity duty, immovable property tax, etc., to the Corporation. The State government had appointed a committee under the Chairmanship of Shri A. D. Shroff in 1947 to inquire into the matter. The Committee did not recommend any additional sources of revenue to go to the Corporation. They held that the present sources of revenue were sufficient to meet the needs of the Corporation and in case some stringency was felt, recommended that some portion of the receipts of the entertainment tax may be given to the Corporation.

The additional liabilities which the Corporation will have to bear when its powers and functions are widened as proposed, are estimated at Rs. 2.30 Crores.







The details of this estimate are set out below:

				(Rs. in lakhs)
Education	..	..	..	80
Medical	..	..	..	23
Public health	..	..	..	2
Development schemes	..	..	..	20
<i>Miscellaneous</i>				
Juvenile offenders, grant to Children Aid Society etc.	..	..	..	20
Infirmary, asylum and beggar problem	..	..	..	20
Slum clearance	..	..	..	30
To implement recommendations of the Advisory Board	..	..	..	25
Other miscellaneous expenditure	..	..	..	10
				230

It would be possible to meet this liability by making the following allocations:

				(Rs. in lakhs)
All net receipts of immovable property tax collected in Bombay	..	..	..	105
75% of the net realisation of the entertainment tax collected in Bombay	..	..	..	63
75% of the net realisation of betting tax collected in Bombay	..	..	..	45
All net proceeds of land revenue collected in Bombay	..	..	..	10
Receipts under education, medical and public health in Bombay	..	..	..	7
				230

In transferring the revenue receipts of the above taxes, we have generally observed the principle that the bulk of receipts from taxes primarily of a local nature should go to the Corporation. No share of urban immovable property tax collected in Bombay need go to the state exchequer. As the Corporation will incur the expenditure on secondary and technical education in the city, receipts of fees from these schools, should go to it. Likewise receipts under Public Health and Medical would go to the Corporation. Except the Grant Medical College, J. J. Group of Hospitals, Potdar Ayur-

vedic College and Hospital, Dental College, all hospitals now administered by the state would be transferred to the Corporation. The allocation of these revenue receipts to the Corporation, will not affect adversely, the state's financial position. Simultaneously with a diminution of receipts by the state the liability of the state would also be reduced as funds spent on secondary and technical education, on some of the state government hospitals and other miscellaneous purposes would be saved. The grant for primary education from the state to the Corporation would be continued. As it is already included in the present receipts of the Corporation we have not separately shown it above. While immediately there will be a balance of the additional receipts and expenditure of the Corporation the complete allocation of the immovable property tax to it will vest in it an important elastic source of revenue.

We would propose an additional small measure of administrative and financial assistance by the state to the Corporation. In addition to the Municipal Commissioner, an additional Municipal Commissioner or a deputy Municipal Commissioner should be provided by the state government to the Corporation. With the widening of powers, it would be difficult for the Municipal Commissioner alone to control the administration effectively. Hence he might require the assistance of an additional Municipal Commissioner.

The problems of metropolitan areas and their administration in our country though somewhat different from those in the U.S.A., the U.K. or other western countries, require equal attention. The problems of the governance of the larger metropolitan areas require special attention. This has been realised to some extent by Bombay State authorities and some steps in the direction of its solution have been taken by the state. But the problem of Greater Bombay metropolitan area cannot be satisfactorily solved so long as any talk persists of separation of Bombay city from the hinterland of Maharashtra, because so long as such talk persists people of Maharashtra will look with suspicion on any proposal to extend the area of direct political authority of Bombay city. In the proposed scheme of Reorganisation of States, with Bombay city as the capital of Maharashtra State, it has great chances of being solved satisfactorily. Therefore, the scheme of governance of Greater Bombay metropolitan area as we visualise it, takes for granted that the reorganisation of states as suggested by us is either an accomplished fact or such reorganisation is going to take place in the near future.

The problem of administration and of regulation of economic activity in relation to a large concentration of urban population has a number of aspects. In the first instance, there is the problem of the administration of the nucleus of concentrated population. This may be defined as the area of Bombay city. Secondly, there is the problem of administration of the suburban areas and part of the rural area which it is found necessary to

include within the boundaries of the greater city. There are disadvantages arising from an attempt at combining the administration of suburban areas, especially if they consist of a number of distinct and separate nuclei, with the administration of the city. The way out may be found by setting up separate local authorities where localities possess distinct individuality and are large enough, and a general local council which administers the more dispersed areas. There is, however, always the additional problem of co-ordinating the activities of even the neighbouring areas of the greater city with those of the authority of the greater city. Among the subjects which such an overall co-ordinating authority or advisory body for a large area should control, are especially public health, transport and town planning. Such an overall body if set up, would also be the general planning authority or advisory body for the whole area. At the same time the Master Plan regarding the development of transport and electric power or the location of industries would be derived from the plan for the whole of the region, in which the plan for the greater city would be fitted up.

Recent steps taken by the Bombay State in the direction of Greater Bombay are by amalgamating the areas of suburban municipalities up to Jogeshvari and Bhandup. This is a step in the direction of complete integration. But the experience of integration is not heartening to the residents of the merged municipalities. The criticism is made that taxation is raised but services to that extent are not forthcoming to that area. Moreover, the residents of these areas feel that their voice is little heard in the Corporation. They fear the dominant position of the city. We must take this situation into consideration when we go ahead in solving the problem of Greater Bombay metropolitan area. Keeping the suburban municipalities as separate entities and creating a federal municipal authority for the whole areas will be another device for the solution of the problem. This means an overall federal authority with specific delegated powers and functions and a number of unit authorities. But in the context of present conditions grave doubts are entertained by persons closely associated with municipal administration regarding the successful working of such a scheme. If the recent amalgamation had not taken place, a suitable scheme on federal lines could perhaps have been evolved. In case the federal scheme is now attempted, it is feared that all merged municipalities may demand separate existence. This is neither desirable nor helpful to create favourable atmosphere for the working of the federal scheme. Another objection to the federal scheme is that the existence of too many authorities in a comparatively small area would lead to the lowering of administrative efficiency. Frictions in the unit authorities and the federal authority would not be uncommon. Integration of all remaining suburban municipalities on the same lines on which it has taken place at present would not also be welcome. As stated above complete integration of suburban municipalities

having distinct individuality would be difficult to achieve and is also not desirable.

The plan which we visualise and which has great chances of successful working and achieving the desired goal is as follows:—

The Greater Bombay Municipality as at present and the suburban municipalities should have their separate existence. Other local bodies (*grampanchayats*) in rural areas included in the Greater Bombay metropolitan area may merge with neighbouring municipalities or merge with other local bodies to form new municipalities for their dispersed habitations or may remain as at present. This will not destroy the distinct individuality of the localities.

A Greater Bombay Metropolitan Advisory Board should be established comprising representatives of all local authorities coming within its area. It should have on its body five representatives of Greater Bombay Municipality selected by it from among its members, one from each suburban municipality sent in the same manner, 3 to 5 representatives of the rural area local authorities (*grampanchayats*) sent in the same manner and 3 to 5 nominated by the state government. Nominated members should generally include experts and representatives of important interests or minorities otherwise not represented. The Mayor of Bombay Corporation should be an ex-officio member and Chairman of the body. The total number of the members of the body should be between 20 to 25.

This body will tender advice to the Minister for Local Self-Government for the purpose of co-ordinating the activities of the municipalities and other local authorities within the greater metropolitan area outside the Bombay Municipal Corporation on subjects of common interest and general welfare for these areas. The subjects on which the Board would make recommendations are: transport and communications, sanitation and public health, infectious diseases, noxious trade, housing, town planning, drainage, water supply, industrial location, electricity generation and supply, development projects and education. Other subjects of common interest may be included in the list by the Board with the agreement of its members. This Board will be an advisory body and will have no executive power of its own. A convention should be set up that the advice tendered by the body should generally be accepted by the Ministers for Local Self-Government, Transport and Housing and carried out by the municipal and local authorities in these areas. The Board will have a small staff to enable it to carry out its functions. This staff may be lent to it by the Bombay City Corporation from its service cadre. The Board should be provided with necessary funds by the state government to meet the office expenses and other sundry expenditure. Before such authority or Board is constituted the state should ascertain the views of all municipal and other local authorities proposed to be included in this area.

Only a part of the decisions of the Advisory Board would be capable of being executed independently by each separate authority. In a number of important subjects where a co-ordinated plan of work is to be executed, it would be necessary to have it undertaken by a single authority. We do not, as stated above, contemplate a separate authority for this purpose at least in the initial stages. The execution of such plans might be undertaken by the City Corporation under the direction and control of the Minister concerned. It would be desirable, in this connection, to have a convention by which the Bombay City Corporation will itself be in charge of execution; the sharing of expenditure etc. being done on some previously agreed basis.

In the main memorandum we have indicated the basis on which the problem of linguistic minorities can be treated. In this note we have elaborated our ideas regarding the manner in which the powers of the City Corporation could be increased, to the fullest extent consistent with the general Indian constitutional and political framework, so that in the educational, cultural and other matters the Bombay city should be largely autonomous. We have also set out in some details the manner in which the conduct of affairs of the larger metropolitan area should be co-ordinated. There is one final step which we consider to be both possible and desirable. This is to have a convention by which Bombay city will be suitably represented in the Cabinet of the State of Maharashtra. This would ensure that the point of view of the population of the city on the social, economic and administrative problems under consideration of government is presented to the Cabinet.

## SOME OBSERVATIONS ON THE REPORT OF THE STATES REORGANIZATION COMMISSION\*

THE report of the States Reorganization Commission has been written in a somewhat unusual way. It does not, as might have been expected from both the gravity of the issue and the standing and competence of the members of the Commission, expound fully the basic problems and principles and then proceed to derive detailed recommendations as following from the discussions of fundamentals. In the examination of basic issues the Report adopts the method of briefly summarising, in a text-book manner, the pros and cons and then proceeds to lay down judgments in a summary manner. Not only have these judgements thus the character of mere *obiter dicta* but also they do not form a clear or consistent framework. The result is that the Commission, in effect, deals with each individual problem in the formation of each state in a manner which can only be described as *ad hoc*, and as a consequence arrives at a set of results which are mutually highly inconsistent. It is necessary to say this in a prefatory way to explain the approach here adopted in dealing with the recommendations of the Commission. The findings of eminent public men who have devoted a large number of months to a study of vital national issues are entitled to very respectful attention; but the findings will command respect and even acquiescence only to the extent that they are evidently based on statements of general principles arrived at after deep thought. On the contrary, when the findings reveal no generally applicable principles or consistent pattern and are seen to be based on special pleading on each occasion, it becomes necessary to remember that even eminent public men have their prejudices and prepossessions or other weaknesses which affect the fairness of their judgement, and, in fact, the longer they have been in public life the greater these are likely to be.

The Commission is convinced that in spite of the possible heavy costs of any large-scale reorganization, further postponement of the question is impracticable and that India has now to "think in terms of enduring political units." (Paras 84-5). Having arrived at this conclusion the Commission proceeds to discuss the factors bearing on reorganization. As pointed above the discussion in this part is highly inconclusive. Not only are no definite conclusions reached but not even a scale of priorities is indicated.

\* Published by Samyukta Maharashtra Parishad, Bombay, 1956.



The quality of the whole performance may be judged from a few extracts. In relation to the factor of language and culture the conclusion of the Commission is as follows:

"We now summarise our final views on the role of language as a factor bearing on the reorganization of States. After a full consideration of the problem in all its aspects, we have come to the conclusion that it is neither possible nor desirable to reorganise States on the basis of the single test of either language or culture, but that a balanced approach to the whole problem is necessary in the interests of our national unity." (Para 162).

The discussion on financial viability which is short and which gives no indication of a clear grasp of the problems involved, ends as follows:

"Financial viability as we have attempted to define it, should, in our opinion, be regarded as an important criterion bearing on the reorganization of States. Financial considerations, however, have to be weighed with other important factors, and decisions have to be taken on a balance of arguments and advantages and in accordance with the larger national interests." (Para 184).

On the important question of whether the reorganized States should be large or small the Report concludes with the proposition "In a matter like this it would be unwise to be dogmatic or to rule out exceptions". (Para 220). This vagueness in the enunciation of basic concepts makes an examination of this part of the report of the Commission unfruitful. To vagueness and inconclusiveness is added a failure on the part of the Commission to elucidate or examine important terms or concepts that it employs. This may be best brought out by reference to its definition of the twofold objective that, from the point of view of national unity, reorganization has to aim at. In the words of the Commission these objectives are: "firm discouragement of disruptive sentiments such as provincialism or linguistic fanaticism; and (b) consistent with national solidarity, provision of full scope for the unhampered growth of the genius of each group of people". (Para 112). These objectives are no different from those accepted and put forth by the most logical exponents of linguistic basis for reorganization of States. From the point of view of a scheme for reorganization of States the crucial phrase in the above definition is "each group of people". The proponents of linguistic states define the "group" in this context as the speakers of a language inhabiting a contiguous expanse of territory in which they form a distinct majority. Curiously, though the Commission accepts the concepts of distinct "groups" or in the same context later of "conceding to lesser units an autonomous existence and an intrinsic life and purpose of their own" (Para 112), they do not seem even to be aware of the need to define clearly how the "groups" or the "lesser units" can be identified.

It may be conceded that an examination of the actual recommendations of the Commission reveal the existence of a working definition of these "lesser units", and it is likely that the Commission did not desire to make this explicit. There is little doubt that the Commission does accept the linguistic basis for the reorganization of states in India. It incidentally recommends a great deal of necessary rationalization of the scheme of states in India, such as the abolition of Part C States and equating the status of Part B States with that of Part A States.

The total effect of the recommendations of the Commission is, however, to redraw the political map of India essentially on a linguistic basis. The main demands of the proponents of reorganization on a linguistic basis were that (1) each constituent state should be unilingual and that (2) the territory of the speakers of each of the regional languages mentioned in the 8th Schedule, other than Hindi, should all be comprised in one state. The Commission holds the view that a state should be treated as unilingual only where one language group constitutes about seventy per cent or more of its entire population (Para 783). All the new states, the formation of which the Commission has recommended, viz. Madras, Kerala, Karnatak, Hyderabad, Vidarbha, Madhya Pradesh and Bombay, are, with one exception, fully unilingual according to the criterion suggested by the Commission. The exception, of course, is Bombay. In all the older states which have been retained in the scheme of reorganization of the Commission, substantially in their older form, most of the adjustments recommended by the Commission result in making the states more unilingual than they are today. Among these older states only Punjab and Assam will still not be unilingual according to the criterion of 70 per cent. In relation to the second demand put forth by the proponents of the linguistic basis, most of the contiguous territory of speakers of Assamese, Bengali, Kashmiri and Oriya is already in one state today. The recommendations of the Commission have the result of adding the speakers of Gujarati, Kannad, Malayalam, Punjabi and Tamil to this group. So that of the speakers of the 11 regional languages, other than Hindi, mentioned in the 8th Schedule only the territory of the speakers of Marathi and Telugu will not be brought substantially in one state after effect has been given to the recommendations of the Commission. In view of this analysis of the recommendations of the Commission it is difficult to see why the Commission did not openly avow what it was in fact doing and thereby achieve a more consistent result. A consideration of this problem raises the suspicion that the vagueness in the exposition of principles might, at least, in part have been due to the need to cover the many inconsistencies in the recommendations regarding boundaries and to justify or at least not to expose too fully, the nature of its proposals regarding the speakers of Marathi.

Before turning to the subject of the recommendations regarding Bombay and Vidarbha something may be said about the exceptions to the general

rules noted above. In addition to Bombay, Punjab and Assam continue not to be unilingual in the reorganized pattern. The population of Assam is so constituted that no effort at reorganization could make it unilingual and no demand for any such effort has been made by the people of Assam and by the speakers of Assamese. The position in Punjab is said to arise out of the fact that "the demand for a Punjabi-speaking State is strongly opposed by large sections of people speaking the Punjabi language and residing in the areas proposed to be constituted into a Punjabi speaking State." (Para 519). None of the difficulties peculiar to Assam or Punjab exist in the case of Bombay. Secondly, speakers of Telugu are classed together with those of Marathi as people the bulk of whose contiguous territory is not recommended to be brought into one state. But the attitude of the Commission towards Vishal-Andhra — one state for the speakers of Telugu — is entirely different from that they exhibit towards Samyukta Maharashtra. The Commission is keen that nothing should be done to impede the formation of the larger state and propose steps by which the objective of the unification of the Andhras will be neither blurred nor impeded. It is against this background that one has to examine how the Commission treats of the demand for Samyukta Maharashtra and proposes to settle the political future of the speakers of Marathi.

The Commission recommends the organization of a state called Bombay. The arguments it adopts for justifying this proposal are amazing in their variety. In the first instance, it pretends that what is being recommended is the continuation of the existing State of Bombay. The present State of Bombay is trilingual. It is proposed to be made bilingual by the transfer to the proposed state of Karnatak, of the Kannada-speaking districts. To the state thus truncated are to be joined three new units Saurashtra, Kutch and the Marathawada districts of Hyderabad. This will very substantially change the composition and the boundaries of the existing Bombay State. However, the Commission pretends that it is the same state; this is done in order to argue preliminarily that as the existing state is well administered and progressive it should not be broken up (Para 403). While arguing thus, the Commission conveniently forgot what it had said earlier about the same state. In discussing composite states the Commission writes "In States having more than one developed language, there has been no marked tendency in the past to develop a sense of loyalty to the State. . . . Marathi and Gujarati feeling grew up side by side, practically to the exclusion of any particular loyalty to the province or State of Bombay." (Para 159). No comment is needed on the merits of a proposal for the continuation in a changed form, as an "enduring political unit", of a state which, though well administered, has been unable for over a century to evoke any particular loyalty!

Another argument put forward by the Commission for its particular proposal is the difficulty of making the financial adjustments that will be

necessary if the State of Bombay is disintegrated. It is difficult to comment on what the Commission writes in this regard. For it evidently refuses to consider even the undisputed basic facts. These are that even apart from the revenues of Greater Bombay the *per capita* revenue receipts of both the Marathi and Gujarati districts are higher not only than the all-India average but also than those of the districts of Nagpur and Berar of whose financial viability the Commission feels so sure. What the basic principles in regard to adjustments are and how the adjustments can be made are abundantly clear from the report of the Finance Commission. Therefore, there would have been no difficulty whatsoever in making the needed redistribution in favour of Gujarat if the Commission had followed the logic of its total approach and recommended the formation of Samyukta Maharashtra with Bombay as its capital.

That it does not do this is obviously due to a single factor. The one and only reason why the Marathi-speaking people are singled out for differential treatment is that while the Commission is convinced that the city of Bombay cannot be separated from Maharashtra it has allowed itself to be swayed by the apprehensions and fears of others. One would have expected that while making a complete departure from its general pattern of recommendations and virtually denying to nearly 3 crores of citizens of India their legitimate political destiny the Commission would have felt called upon to explain the grounds of its decision at some length and with some cogency. The facts are otherwise. It would be useful to bring together in one place all that has been recorded by the Commission by way of reason, argument, opinion, etc. which induced it to make the notable recommendation regarding a bilingual State of Bombay.

‘Its [Bombay city] integration in Samyukta Maharashtra will lead to a rapid decline in its importance’. (Para 413).

‘During the course of our enquiry, a vast majority of persons who appeared before us and did not belong to either of the two contending language groups expressed themselves strongly in favour of placing the Bombay city under a separate administration in the event of the disintegration of the State. We also noticed serious misgivings in the minds of large sections of the inhabitants of Bombay as well as persons outside about the future of the city, if it formed part of a unilingual State’. (Para 416).

In the succeeding paragraph (417) the Commission sets out the arguments put forward by supporters of Samyukta Maharashtra to show how these apprehensions are misplaced. The Commission admits that it is impressed by the cogency of these arguments but adds “we cannot lightly brush aside the fears of the other communities.” (Para 418). Finally in Para 421 the Commission states “the likely psychological dissatisfaction of the Gujarati and other communities, in the event of Greater Bombay forming part of

Maharashtra, may be very great, and it will be unwise to hope that the industrial and commercial life of the area will remain unaffected”.

Burke wisely confessed that he did not know the method of drawing up an indictment against a whole people. The States Reorganization Commission does not even draw up an indictment against the people of Maharashtra; it delivers an ex-parte judgement on the basis of a smear campaign against them. The leaders of this campaign have, of course, been prominent trading and industrial interests. It is well known that leaders of the Samyukta Maharashtra movement made efforts to meet the prominent among these leaders and obtain from them concrete details in relation to which some action could be taken or assurances given. It was, however, found impossible to arrange the meetings. When through the good offices of Shri Vaikunth L. Mehta, who has seen the justice of the cause of Samyukta Maharashtra, an informal gathering of some persons could be got together, it was found that while some eminent non-Maharashtrians realised fully the justice of the Parishad case those who said they felt apprehensive were unable to concretise their fears. The Parishad was thus unable to proceed further. And it now finds that large political issues are being decided because of vague allegations of fear, apprehension and suspicion and because of thinly veiled threats of undermining the economic well-being of the City. Interests which achieve this must indeed be very powerful. It must be freely confessed that the people of Maharashtra acting through the Samyukta Maharashtra Parishad or any other organ are unable to counter this influence. If the Commission had been really serious in this matter and felt interested in a fair deal it would certainly have refrained from listening to vague allegations *in camera* and confronted the leaders of Maharashtra with definite statements which could be rebutted, met or provided for. If after doing this the Commission had made the specific recommendations the people of Maharashtra could have had the satisfaction of having been treated with at least ordinary decency.

Before leaving this subject brief reference may be made to the statement often quoted from the J. V. P. Report that Bombay is too important to be made part of a unilingual state. When the J. V. P. report was written it was possible to argue that there were a number of multi-lingual states. It has been pointed out above that in the scheme of the States Reorganization Commission practically all states except Bombay are to be unilingual. In the report of the Commission specific mention is made of the adequate powers possessed by the Central Government in relation to ports. This is in connection with the jurisdiction over Cochin of the unilingual State of Kerala. Attention is also drawn in the report to the position of the speakers of Urdu in the twin cities of Hyderabad and Secunderabad. Urdu speakers form in these cities a large percentage (45.4) and are evidently the largest single linguistic group. The Commission rejected the plea for making these cities a centrally administered area and suggested some measures to pro-

fect their interests to be adopted by the unilingual State of Hyderabad. In the case of the city of Bombay alone powers, etc., which are found to be adequate in the case of all places and locations of economic, strategic, etc., importance all over India evidently prove inadequate. Here, as in most other matters concerning the speakers of Marathi what is sauce for the goose is not sauce for the gander.

The section on Vidarbha in the report of the Commission is best described as a *tour de force* of special pleading. It shows how clever men when free of any settled frame of reference can prove what they have called black in one context as white in another. It also shows the advantage of avoiding concrete data and writing impressionistically. The cases for Samyukta Maharashtra and Vishal-Andhra have close parallels. There is some opposition in Vidarbha to Samyukta Maharashtra and in Telangana to Vishal-Andhra. While the Andhra leaders of Vishal-Andhra are supposed to be prepared to provide safeguards for Telangana agreement regarding safeguards to Vidarbha had already been arrived at. The least that you expect of a Commission of this sort is an initial objective statement of all the facts. Instead you get tendentious accounts, one from the point of view of achieving Vishal-Andhra and the other from point of view of sabotaging Samyukta Maharashtra, accounts which would convey an erroneous idea as to facts to anybody who was previously unaware of them. For example, in other contexts, decisions of Congress Committees are given importance; but in this context, not even a hint is given that the Berar Congress Committee had supported the demand for Samyukta Maharashtra. In the case of Vidarbha historical arguments, mainly brushed aside elsewhere, suddenly acquire great importance. Discussion on finance in this section airily begins with the statement "Vidarbha's traditional financial surplus, so far as we are aware, continues". On this level of knowledge and understanding any misstatements are, of course, possible and permissible; and we get a repetition of the statement that there appears *prima facie* justification for the suspicion that if Vidarbha joins Maharashtra, it cannot be certain that its resources will be spent on its development. The statement had been challenged and facts had been adduced to show that Vidarbha as a whole was in fact not richer than West Maharashtra as a whole. The Commission had made no attempts at going into the issue with people in evidence who had put forward this contention with facts and figures. And yet it feels free to repeat the allegation insinuating, incidentally, that the Nagpur pact would not be respected. No surprise should be felt that the views or even the statements made by such a Commission command no attention, much less respect. One last example may suffice as a comment on this section on Vidarbha. In two parts which are to come together to form the State of Kerala financial conditions are disparate and tenancy laws, etc. are different. A detailed examination is made by the Commission of these differences and it is found they do not militate against the union. The similar situation in the case of Samyukta Maharashtra pro-

duces the following interesting variant. When arguing for the retention of Bombay as a bilingual state its success in enforcing land reforms and ameliorative legislation is noticed with approval. In the context of Vidarbha these laws became a liability and it is noted, evidently as an argument against Samyukta Maharashtra, that important sections of the people are not willing to run the risk of a transition arising out of the introduction of these laws. There is not even an attempt to mention who are the classes who are opposed to these laws, who on the contrary will profit from them, what, if any, can be the special interests of Vidarbha in this matter and whether there is not an all-India interest and policy in land reforms. Evidently, any stick is good enough to beat a dog with and we, therefore, find in this section a reference also to communalism in West Maharashtra which is supposedly absent from Vidarbha and also possibly throughout the rest of India. That the Commission can, when it desires, deal with the problem of a possible change of balance of power between classes or communities, in terms other than those of abusive expletives, is seen from its description of the situation in Karnatak. On similar lines, the Commission could have analysed who in Vidarbha was afraid of losing power, and therefore, talking of communalism in West Maharashtra. However, if this had been done, it would have become inconveniently clear that the Commission was supporting, by the creation of Vidarbha, a demand made by the non-progressive elements in the area.

A brief examination may finally be made of the recommendations that the Commission makes in relation to the delimitation of boundaries in many contexts. The starting point of these recommendations may be said to be the following statement.

"In our scheme of reorganization, we have adopted the district as the basic unit for making territorial readjustments. This is because we feel that districts have developed an organic and administrative unity and an economic life of their own, and any adjustments below the district level should normally be avoided." (Para 291). The statement is made ex cathedra, without any proof. There is, in fact, no organic unity in a district and anybody who has had occasion to examine detailed economic data relating to districts knows that in most of them there is great diversity of economic life. No reason except wanting to avoid the normal procedure of a Commission to delimit boundaries can, therefore, justify the adoption of the district as the boundary unit. In fact, of course, the Commission, true to its general pattern, disregards the district unit completely when it desires, for any reason, to do so. The inconsistencies in relation to boundary recommendations are so many and the use of the *ad hoc* argument so common in this context that any detailed examination of the subject would prove unnecessarily lengthy. However, a few points may be set down by way of illustration. In most respects where the Commission takes the trouble to examine a question in detail the boundary settlement is proposed in

terms of talukas. In the settlement of the boundary of Kerala, for example, the taluk is taken as the unit. At this stage the taluk is treated as indivisible even though a clear natural boundary like a river may be available for a more just demarcation (para 306). However, in the section on Andhra it appears that the southern and south-western boundaries of the Andhra State are to be demarcated by a Boundary Commission and that the Andhra Government is prepared to consider claims of Tamilians to "areas" in some taluks after "census slips have been sorted and village-wise language figures are available." (Para 395). The use of village data are ordinarily anathema to the Commission. If because of a previous decision of Government they are to be used in the delimitation of a particular boundary why should they not be used in delimiting other boundaries by adopting the same procedures for the purpose? In this instance, previous decision of the Government of India may be said to have been respected but later the Commission itself descends to lower units than the taluk. We thus have a recommendation regarding a sub-tehsil (Para 506) and even a *thana* unit (Para 665). And in one particular case there is not only a reference to portions of sub-divisions and portions of a revenue *thana* but also a recommendation that "the actual delimitation of the new boundary will have to be settled after a detailed survey." (Para 652). In contrast, when it pleases the Commission, it refuses to break up a district which has taluks in which speakers of different languages definitely predominate and which can be conveniently linked with adjoining territory. The argument that these taluks are remote from capitals is supposed to suffice for the decision (Para 392). Obviously, areas on boundaries are apt to be far from the capital at least in some directions, and surely even the Commission will not argue that whether a Kannada-speaking taluk should be joined to the Telugu areas or to contiguous Kannada areas cannot be determined on the basis of the relative distances from the capitals of Telangana and Karnatak. By some curious coincidence the Samyukta Maharashtra's demand comes in for special treatment even in this context. All boundary claims, whether accepted or not, are at least noted by the Commission. The Samyukta Maharashtra demand for talukas in the Karwar District is singled out for the contemptuous treatment of not even being mentioned.

Regarding this question of the unit of boundary fixation one point which the Commission has evidently misconceived needs to be cleared. The Commission thinks that to ask for a detailed delimitation of the boundary is linked with what it calls the "homeland" concept. This is not so. The detailed delimitation is asked for only in the case of strictly contiguous territory. Where there are pockets of linguistic minorities there is complete agreement with the statement of the Commission that safeguards should not impede the processes of natural assimilation (Para 769). There is, however, nothing wrong in the contention that a taluk or a group of villages immediately contiguous to the district boundary fixed by the Commission cannot



be treated as a pocket. It is part of the contiguous territory itself. In all processes of boundary fixation so far, in the case of Orissa or Andhra for example, detailed village-wise demarcation has been made. That the process is still continuing in Andhra is noted, without any recommendation for its discontinuance, by the Commission itself. It cannot, therefore, be wicker to urge that the same procedure be adopted in the future creation of new states also and that the procedure adopted by the Commission, while apparently simple, creates and perpetuates, unnecessarily, hardship and conflicts. All the special departures made from the linguistic test by the Commission are based on *ad hoc* arguments and with the known variability of judgements on these matters. It would not only be fairer but also likely to assure stable and acceptable decisions if the linguistic test with well-defined procedures is used by a neutral Boundary Commission. In fact, the method adopted in the appointment of Mr. Justice Mishra and the examination made by him are the best guides in this context.

It is unnecessary to continue further this examination of the report of the S.R.C. The effects of its recommendations on the Marathi-speaking people is clear. In Vidarbha the Commission seeks to create and to perpetuate a specially small unit in spite of the known wishes of a substantial section of the people of the tract for union with West Maharashtra. The rest of the Marathi-speaking people it condemns, again permanently, to a bilingual state where it is foredoomed to a life of conflicts and frustrations. To enjoy in your own lesser unit an autonomous existence with an intrinsic life and purpose of its own and with full scope for unhampered growth is one of the most valuable privileges of the citizens of a federal state. This, which the recommendations of the S.R.C. itself grants to all others, is specially and permanently denied to speakers of Marathi. In the circumstances, it is no more than a simple description of facts to describe the recommendations of the S.R.C. as effectively reducing the speakers of Marathi to the status of inferior citizens.

## EMOTIONAL INTEGRATION\*

I TAKE it that emotional integration does not denote a state of mind brought about temporarily by slogan-mongering or propaganda campaigns but a lasting sense of cohesiveness based on recognition of common values, tradition and interests. In India this can be achieved only through an intelligent long term national policy. I set out in brief below, my concept of what is involved in this policy and the proper approach towards its implementation.

The vast majority of the Indian people are Hindus, among whom the primary social grouping is on the basis of caste. The caste groups among Hindus function within certain regional boundaries. There are, properly speaking, no all-India castes. Small sub-castes may be confined to very small areas but the large caste groups are found spread over a relatively wide region whose limits are usually coterminous with the linguistic region. Hindu society may thus be said to be composed of groups of speakers of the major languages stratified into castes and sub-castes. In this context, the concept of regional society forms an overall framework within which the castes function.

Social bonds and feelings are based on frequent communication and common interests and ways of life. Birth, occupation, wealth, rank, etc. can form the basis only of a stratified society. If the objective is to create an open society which disregards caste, class or religion the only possible basis is that of the neighbourhood and the local area. In my opinion, the largest area basis on which a meaningful attempt to create such a society can be made in India, is that of the linguistic region. The smallest of such regions, outside the big Hindi block, namely Assam and Kerala have populations larger than those of Portugal or Sweden and the largest, Andhra, has a population larger than that of Spain.

The extent of the area over which a comparatively well-knit society can be created is dependent on ease of communication and the degree of mobility. The coverage of a large area in a predominantly agricultural society is relatively more difficult than in a highly industrialised society and relatively less difficult in a new colony than in an area of old societies with long continuous histories. In the colonies of the Europeans, elements from various European countries have been fused together, while the separateness, even in modern times of, what in comparison with Indian States appear to be, small units such as Finland, the Scandinavian or Benelux countries, has

\* *Quest*, Vol. III, No. 2, October-November, 1957, pp. 41-44.

been fully and vigorously maintained. Even in the colonies, real fusion has been possible only where deliberate attempts were made to obliterate the older linguistic and cultural identification and to postulate the creation of a new culture. Where this has not happened, as with the French in Canada or with the Dutch and the English in South Africa, there is marked separateness of regional linguistic societies. Therefore, the concept of a single Indian Society in the sense in which English society or French society can be said to be unified is obviously impracticable, even if it were desirable. It is undesirable because, as in the case of the colonial societies, such homogeneity could be achieved only by the deliberate suppression of existing diversity which is the result of a long history of separate developments. The deliberately chosen federal form of the Indian Constitution, the enumeration of all the major languages in the schedule to the constitution and the history of the formation and reorganisation of provinces and states for the last fifty years, all support this view.

On this basis integration appears as a two-fold process. The first is that of the formation of the primary regional societies and secondly that of the creation of a feeling of solidarity, of unity in diversity, among members of the different primary regional societies. The principal difficulty in the formation of regional societies is that of caste. The problem of the elimination of caste has usually two important aspects. The first is the removal of the barrier between the Brahmins, Baniyas and other so-called "advanced" castes on the one hand and the middle peasant communities on the other; the second is a similar process as between rural peasant society and the untouchable castes. In a number of regions the issue is further complicated by the presence of protestant or other groups outside the strict Hindu fold, as that of the Lingayats in Karnatak or the Sikhs in the Punjab. These problems by themselves are difficult enough; however, to them have to be added to important sets of problems at two different levels. The first is that of the scheduled tribes. These are usually not fully integrated within the Hindu societies of their regions. To bring this integration about without upsetting their lives or disrupting their economies is one of the most important and yet delicate task that we confront. At the other level is the integration, with regional societies, of a number of non-Hindu minorities. The caste structure of Hindu society has, in the past, made it easy for a non-Hindu minority, whether local or immigrant, to find a place in the total framework while retaining its individuality. During British rule, the degree of integration that had been thus achieved was significantly lessened because of foreign rule and the deliberate encouragement to minorities by the British to emphasize their separateness. The process of fresh integration, in these cases, is specially difficult where the minorities consist mainly of immigrant urban, trading or professional elements. With rural and local communities the difficulty created by difference of faith need not be found more difficult than that created by caste.

No special obstacles arise in the process of intensifying the feeling of solidarity as between members of the various regional societies. No elements among Hindus and most others have extra-national or supra-national ties and all these elements have shared, since historical times, common developments in religious life and in intellectual and artistic activity, in spite of linguistic diversity. With increasing integration of economic life and ease of communication the sense of a common heritage and shared development should grow. The growth could be helped greatly by an intelligent national policy, especially in the fields of education and culture. However, it is necessary, in this context, to solve satisfactorily and speedily two outstanding problems. Firstly, that of the building up of the language of the Union simultaneously with development of regional languages and secondly that of the lessening of regional disparities through and in the process of economic development.

Even this summary statement makes clear that the problem we face is very much larger and more complex than that faced by any other country. Is it beyond our capacity to solve, and what are the forces that make for and against its peaceful and satisfactory solution?

The greatest obstacle in the way of a satisfactory solution is the amazing lack of understanding on the part of those in the highest authority in the country. This has been underlined by the manner in which the reorganisation of States has been brought about; what should have been recognized as the most proper and satisfactory basis of the process has been accepted only under compulsion of popular sentiment. And even now there is no evidence of a clearer appreciation of the structure of Indian society and its appropriate evolution. Unfortunately, the Prime Minister himself appears unclear. Many of his utterances and actions and in particular his persistent stand about the disintegration of Hyderabad indicate that his subconscious thinking is rooted in a North-Indian, predominantly Muslim, feudal, aristocratic past. It is therefore difficult to expect that in his pronouncements he would discriminate between the caste, the community, the religion and the region as bases of social groupings.

A second disquieting feature of the existing situation is what might be called the "Nehru Cult". This consists in spreading the impression, especially among foreign observers and members of the minorities, that the minorities are safe in India only as long as Pandit Nehru is in power. Those who make the allegation conveniently forget the historical fact that in no large society in the world, except perhaps the Chinese, was there in evidence, till at least the 19th century, a tradition of such hospitality and tolerance as in India and that the existence of the minorities in India today is entirely owing to this tradition. A particularly bad manifestation has been the recent, inspired propaganda that if Muslims in Kashmir are allowed to join Pakistan the lives of Indian Muslims will not be safe. Without entering into the merits of the Kashmir dispute, it

is safe to assert that if a partition of Kashmir on the Hindu-Muslim basis is found necessary, there will not be the slightest trouble in India, as long as the matter is explained in advance to the people and they are assured that proper arrangements are made for a fair exchange of the populations and for the safety of life and property of the non-Muslims. The "Cult" is dangerous because it indicates that there exists among certain very powerful circles in the country, ignorance of our history and traditions, distrust of our masses and a readiness to libel the whole nation for own ends. No integration emotional or otherwise, of the Indian people could be achieved while such people wield power.

The third adverse factor is the attitude of important elements in big business, among high ranking officials and among professionals and intellectuals in the largest cities, particularly Delhi and Bombay. To these, Indian integration means merely the integration of the top strata; this is integration in terms of interests and areas of influence for those on top, leaving even their own private operations and lives at the level of the sub-caste, the community or the clique. Any idea of identification with the masses is anathema to these "select" at the top. Their attitude towards the people may most favourably be described as that towards "wards". The view of the S.R.C. that half of the officials serving in the State must come from outside that State represents this view of regional societies and their relation to the "Elite".

This view and the present position of the different elements among the top strata is found to be challenged by the emergence of conscious, regional societies. In that event, slowly but inevitably, the balance will tilt in favour of the countryside and the poorer classes; their interests will begin to receive attention and they will obtain a greater share of political power and of the national product. Decentralisation and egalitarianism will tend to become realities. It is natural, therefore, that all those whose interests lie in continuance of concentration of economic power, overwhelming influence of urban, particularly metropolitan centres and centralisation of administration should oppose developments in the direction of the approach set out above.

What are the factors that could be set out on the credit side? Firstly and, in the long run, overwhelmingly, the most important factor is the age-long Indian tradition itself. From its ancient Hindu, Buddhist, Jain parallel developments through the comprehensive outlook of the Bhakti saints to, say, Ram Mohan Roy, Tilak and Gandhi, it has left such a deep impress on our masses that whatever their occasional lapses, a peaceful 'live and let live', way out of our difficulties seems most likely to evolve. In favour of this view may be noted the rapidity with which normal conditions were reestablished after the great strain of the partition and the comparative ease with which they have been maintained in spite of grave provocations and continuous pressures, such as that of refugees in East India.

The second favourable factor is the evidence of some decline in the importance of the caste and community factor in many regions. It is true that this is not happening over all regions and that the pace is not rapid enough almost anywhere. The most important and striking recent example of the ability of our masses to transcend caste and communal differences on a vital issue is seen in some notable results in the last elections in Maharashtra. The election in West Khandesh of a Parsi lawyer from Bombay, hardly known in the constituency, as against a highly respected and politically influential Brahmin lawyer who had spent his life in the district, or the election in Ratnagiri of a person belonging to an old immigrant trading community as against a Maratha of very high prestige are undoubtedly remarkable. Equally remarkable was the election in North Ahmednagar of a Mahar from Bombay as against a local high ranking Maratha from peasant stock and with large connections throughout the district. These results were never expected by even the most optimistic.

It is sometimes said that these results show a mixed trend because they also exhibit the triumph of regionalism as against an all-India view. Such an interpretation of the happenings is totally wrong. No question of regional interest as against all-India interest was involved. It was a protest against being singled out for differential treatment and a protest against those in authority and not against the country or against national interests. To confuse the country with those who wield political power in it at any particular time is an old trick of the authoritarians.

Apart from these manifestations in the political field, my personal experience in social and economic work, especially cooperative work among peasants, gives me ground for hope. I have found that the bulk of our people when confronted with real problems prove educable and with experience of affairs tend almost naturally to take a progressively wide view. Of course, this happens only if you take them into confidence and treat them as equals.

Lastly, as a proof that the Indian tradition is alive and may soon become vigorous I would point to the life and work of Vinobaji during the last 10 years. Here is one who in his life and philosophy attempts, as much as one human being can, a conscious and comprehensive combination of the realism and humanism of the Buddha, the logic and intellectualism of Shankaracharya and the mysticism and latent radicalism of the Bhakti saints. He lives Indian integration through actual contact with villagers in all parts of India and talking to them, as far as possible, in their own language against their own cultural background. He is inevitably, a decentraliser and an egalitarian, but he is also the most potent force in the creation of a genuine modern all-India ideology and an all-India common platform; he is also more actively insistent than anybody else in the participation of all in the creation of an all-India vehicle of linguistic communication.

As set out above, what I consider to be the adverse elements are seen to be in seats of political power or wielding great economic influence. What I consider to be the favourable elements are either in opposition or weak or disregarded by those in authority. Even so I am hopeful for the future; my optimism stems from the judgement that all the adverse elements should, in the main prove to be transitory, while the favourable elements are parts of our permanent heritage and are bound to exert a continuous long term influence.

## SOCIAL CHANGE AND LIBERAL DEMOCRACY IN NEW STATES\*

THE problem on which I desire to set down a few observations relates to the transition in the new states from the existing social organization to a new one which will be more conducive to the working of a liberal democracy. It is not necessary to describe in full the existing social situation in any particular country or region. It will be sufficient to point to the main relevant features. In what follows, discussion centres round the situation in India. Attempt is, however, made to place it on as generalized a level as possible; so that it may, at least in part, have relevance to the situation in other regions such as, for example, South East Asia or the Middle East.

The most important characteristic of the Indian social situation is the dominance of caste. The caste system places groups in society in a predetermined, relatively ranking order, and one's position in the caste structure is determined by birth. Theoretically, not only social status but also economic occupation was supposed to be determined by caste. However, occupational determination was, perhaps, never rigid, and during recent times this has been confined to preventing entry of members of some groups to some pursuits. Today, direct effect of caste in this regard may be considered to be negligible. However, the historical importance of the factor in shaping the existing economic situation should not be minimized. This varies from region to region in India. In the Maharashtra region, the results of a number of field enquiries indicate close correspondence of the ranking in terms of (1) caste hierarchy, (2) income levels, and (3) educational attainments of the three groups of urban, professional, priestly and trading castes; of the peasant, and artisan castes; and of the depressed, untouchable, low occupational and rural labour group. In talking of the social situation created by the caste structure, it is necessary to bear in mind these lasting historical effects. They remain even where social ranking is no longer regarded, or where entry to any occupation or vocation becomes conceptually free.

\* Paper submitted to the Seminar on 'Representative Government and Public Liberties in The New States', held under the auspices of the Congress for Cultural Freedom in association with the School of Political Sciences, Pantios, Athens, at Rhodes in October 1958, and published in *Artha Vijnana*, Vol. I, No. 3, September 1959, pp. 177-186.



Within the general framework of caste society, each group, caste or sub-caste was relatively self-regulated. There was overall determination of the ranking of the groups and of the behaviour of members of different groups towards each other. But within the group, social control was exercised by the group itself. This permitted the existence side by side of an immense variety of practices relating to dress, food and drink habits, religious worship, marriage customs, etc. Within the group, at least theoretically, conformity to the group pattern of conduct and behaviour was rigidly enforced, but within the society as a whole great diversity from group to group was considered natural.

Side by side of the numerically overwhelmingly important Hindus, there are a number of other sections of the populace distinguished from the Hindus chiefly on grounds of religious faith or worship. Some of these like Jains, Sikhs, or Lingayats represent indigenous developments; others like the Muslims and the Christians may be said to exist because of influences coming from outside the country. However, in a varying degree, the social structure of all these has been affected by the concept of caste. Some of these, especially those of Indian origin, have close connection with Hindu society; others keep apart. However, even the latter are divided into a number of communities or groups which are largely self-regulated.

The whole structure was not completely immobile or rigid. There was always some movement, e.g. movements of individuals from one group into another, changes in ranking, emergence of new groups or disappearance of old ones, and entry of new elements into society. But all these were slow, chiefly marginal, and no formal or avowed arrangements were made for them. Moreover, there was little assimilation; the entry of fresh elements usually resulted in the creation of new groups. It has been claimed that these slow and informal procedures allowed for admission of new elements without bringing about a sudden large change in their living or outlook and that the resulting tolerance of diversity proved of great value. It is equally necessary to emphasize that the process also prevented any close integration or the emergence of any feeling of identity within members of different groups. Thus, in a state or region, the society which functions as a political or economic unit is socially made up of a number of large sections based on religious, ethnic, linguistic, etc. differences, in each of which there are graded groups. The degree of social cohesion in such a society is necessarily limited and there is at least as much emphasis on difference and diversity as on sameness or common features.

In discussing the process of transition it is necessary to remember that the primary group, the caste or the community, in this type of social organization is an extended kinship group. It is usually within the group that marriage is possible or permissible and that all one's blood relations are found. It is within this group that close economic co-operation has been

traditionally fostered and such social security and welfare elements as exist have been provided. The continued hold of the group is, therefore, extremely strong; it shapes current behaviour, as is evidenced by the universal complaints relating to nepotism and communal feeling. Some modern developments have helped to strengthen this hold. For example, the importance of credit and finance in economic life and of elections and voting behaviour in political life have led to general attempts at exploitation of the old ties, though usually on a somewhat widened basis.

Reorganization of social grouping involves, in the first instance, the rejection in ideological terms of the hierarchical, birth and status basis of present arrangements. This by itself is a difficult enough task, especially in relation to the frank acceptance of claims to equality of those lower than oneself in the hierarchical scale. A change in ideology is merely the precursor of a change in fact. The latter is a slow and difficult process which usually involves a change in marriage customs and habits also. As long as the older marriage customs continue, all that can be expected is a wider interpretation of the community so as to include many sub-castes or closely related communities. It will only be when the practice of young persons choosing their marriage partners on their own prevails that the new family and kinship groupings may come to have no necessary connection with the old caste and community structures. However, this would itself impose a new limitation; that marriages would be limited to the group of habitual social intercourse of any set of young persons. And whether, in fact, the old community ties will be effectively dissolved will depend on the composition of these groups. If there exists educational, cultural, and economic stratification in society and this is closely related to the older caste and community groupings, the change in marriage customs will not result in making the new basis of social groupings much more wide or open than before. Or, to put it in alternative terms, the extent to which the latter happens will depend on the extent of mobility in economic and educational terms in society, on the extent to which opportunities are widely diffused and economic and cultural equality, in fact, obtain.

The process assumed in the above paragraph, however limited its actual operation and effect, is itself dependent on the emergence of the concept of a regional or national cultural society. On the ideological plane this has been largely achieved, chiefly as a result of the nationalistic political sentiment. In the smaller and less complex states, the intelligentsia has successfully popularized the idea of a large cultural society based on common history and languages; elsewhere, as in India and Pakistan, within a wider cultural framework, the idea of large regional societies has emerged and has been accepted. It is important to recognize, in this process, the role of political feeling or sentiment. It is the growth of this, essentially in its democratic form, that has served to undermine the prestige of old

hierarchical structures and that can potentially build up a feeling of social solidarity transcending the old ties of caste and community. Political sentiment, attached to the concept of an emergent territorial society, has, therefore, a great part to play in the coming social revolution.

What part would or could be played by the location, village or city in the concept of the regional cultural society? So far, units smaller than the state or the region do not seem to have been important in the flowering of political sentiment. That is, however, no reason why in the actual working of a political democracy they should not prove important. The village has been the primary unit of political organization in a large number of traditional societies and has often evoked some emotional attachment. It is possible to make use of this fact in operating a democratic political society, provided the socio-economic structure of the village itself becomes democratic, and provided the state vests the primary unit with some element of autonomy. In traditional rural society, political and economic power rested in the hands of a limited number of groups, and the actual rural leadership could only notionally be supposed to represent and look after the interests of others. Socio-economic structures of the countryside prove more resistant to change than those in towns and cities, with the result that, today, the older neglected or oppressed elements feel usually more safe in urban areas than in the villages. This places some limitation on relying upon village leadership and autonomy as important elements in democratic working. At the same time, it is of the utmost importance that the politico-economic organization of rural areas should receive every consideration and due weight. This is because the rural urban imbalance in the newer states is extremely pronounced.

The causes of this imbalance are not far to seek. The urban areas are the seats of most modern economic and political activity, and they are the initial recipients of the impact of the external forces which are pressing on traditional society. To an unusual degree political and economic power has been concentrated in the rapidly growing city and metropolitan areas, irrespective of the extent or pace of modernization or industrialization. Consideration of the social and political organization and life of urban areas thus becomes vested with particular importance. At the outset, an important difference as between the European and Asian developments may be indicated. Terms such as "civic spirit" derive special meaning from the history of the Greek city-states and the quasi-independent medieval European cities. There is little comparable to this in Asian history. In Asia the village might often be largely self-regulated and autonomous. The city on the other hand, was almost invariably administered directly by officers of the political state. Its composition would be heterogeneous and the characteristic of the larger society — that of being constituted of a number of independent social groups loosely held together — would be fully exhibited in the towns, much more so than in the villages. The element

of autonomy, if any, would be reflected only within certain types of closed trade or craft organizations. Therefore, in terms of socio-political sentiment the city has little historical contribution to make.

The prospects for the future in this regard may be best discussed in the light of current experience in the West. The experience is difficult to summarize. There is, however, a very large body of opinion which insists on the disintegrative effect of the large cities, the lost individual in them, and on the feelings of alienation and insecurity. Studies which emphasize the continued importance of kinship groups in large cities appear further to emphasize that the cities ordinarily fail to provide an alternative basis of social cohesion. In this connection, the findings of a study of the moral integration of American cities appear particularly instructive. These are that low moral integration, which may be interpreted as relative lack of civic spirit, is associated very significantly with heterogeneity and mobility.

Heterogeneity and mobility are characteristics which are particularly marked in the growing large cities of the underdeveloped areas of the world. Heterogeneity is a function, as already indicated, of the structure of these societies. Heterogeneity can diminish only to the extent that the process of integration, discussed above, gains momentum. At present, however, there are no pressures at work in these societies such as operate, for example, on a fresh immigrant into the U.S.A. for adoption of a common pattern. Heterogeneity in the growing cities becomes marked because of the attraction that the city has for all kinds of elements from all regions within its economic pull. The rapid rate of growth of these cities in recent times has invited considerable attention. The rapid growth is due to high concentration of new types of economic activity in the cities and to great disparities in opportunities of employment and levels of earnings in these cities and the rest of the economy. Consequently, in these cities, the feelings of alienation and insecurity among the mass of the people are bound to be highly pronounced. This would be all the more so because the immigrants have previously been members of close-knit groups and because the conditions of housing in the cities make family life well-nigh impossible for very large numbers. It is thus highly unrealistic to talk of the emergence of a civic spirit as a factor in the working of these new democracies, at least in relation to the mass of population in the cities.

How is the conception of national unity related to the smooth working of democracy in the new states and to the maintenance of public liberties? It seems often to be taken for granted that, firstly because a political state exists, people within it will be or, at least, ought to be imbued with a sense of national unity, and secondly that talking about national unity is in some way closely associated with a concern for the welfare of the whole society. Both these assumptions appear questionable. If the new states had come into existence as a result of a deliberate, free choice of all concerned (after a kind of universal plebiscite offering a number of alterna-

tives), the first assumption might have some validity. In fact, nothing of this sort has happened. It is, therefore, not possible to say today that the boundaries of all States are coterminous with those of single national cultural societies. The whole of Korea is usually conceded to be one national cultural society; it is today divided into two obviously artificial units. How would the concept of national unity be expected to operate in this context? Malaya is currently undertaking a large experiment in the creation of a new regional society. *A priori* statements regarding national unity have little relevance to its case. Most outsiders may be ready ordinarily to accept the idea of Indonesian national unity. However, one can imagine situations in which quite a number of them might argue plausibly that, say, Java and Sumatra did not form parts of one nation. Till the eve of the partition of India, most outsiders did not recognize any force in the case for Pakistan. There are, perhaps, few groups of peoples in Asia more emotionally attached to their linguistic and cultural traditions than the Bengalis. And yet a political separation of Hindu from Muslim Bengal could not be avoided. How is the present situation in Ceylon to be described? What is the connotation, in this context, of the boundaries which divide states in the Arab world? And quite obviously the formation of political areas in Africa was determined for the most part more by the opportunities open to colonial powers in the 19th century than to anything else.

Where the state, in fact, embraces a national cultural society and evokes feeling of attachment from the people, this should help the working of democratic forms. But where this is not so, appeal to claims of national unity is not likely to prove useful, and may, indeed, be dangerous. Attention may be drawn specifically to two types of situations. The first relates to the problem of the re-formation of states. Rigidity of the situation, in the face of a keen desire on the part of peoples to re-form states by amalgamation, division, etc., has been a fruitful source of international friction. The rigidity is due to a large extent to a widely held prejudice in favour of the *status quo* and the whipping up of emotional feelings. In the circumstances it appears wise to refrain from doing anything which would prevent or obstruct a dispassionate re-examination of the boundaries of states.

Even more important, perhaps, than this is a feature of the internal situation. Most new states are heterogeneous in their social composition, and where they are large contain territories or regional societies which are not completely integrated. In this context, it is necessary to examine carefully the use of the slogan of national unity. It is, of course, possible naively to assume that ruling groups in a state are genuinely and solely concerned with the welfare of the whole society. But, in case one feels that this condition is not likely to be always satisfied, it has to be conceded that the cry of "national unity in danger" might be raised to distract attention from either harsh and undue centralization or differential treatment

of ethnical, religious, regional, etc. minorities. Historically, nationalism and national feeling have proved sources of great intolerance. The only remedy against this is to deny any exclusive claim on behalf of the national group and to insist on the principle of concentric loyalties. This leads to a proper recognition, on the one hand, of loyalty to groups or sub-groups within the state or nation and, on the other hand, of the concept of wider units extending up to world government.

In the absence of such a moderation of the claim of national sentiment, it is likely to be an instrument of destruction of internal liberties. The attainment of national unity should be considered a challenge to the leaders and rulers of the new states. It has to be achieved and cannot be taken for granted.

We thus return to the central problem of social transition. Existing societies in the new states exhibit very considerable vestiges of a hierarchical structure; they contain elements which, though partaking in the ordinary economic and administrative structures, have yet not been accepted within the broader central society, and also contain elements which have either been plainly treated as external for all purposes or have been so dispossessed and discriminated against that they could have no feeling of identity with the rest. The problem is of moving on to a situation where a minimum degree of integration and of cohesiveness within society will have been achieved. If this is done, civic spirit and national unity will be exhibited in ample measure; if not, search after them will prove futile.

The maintenance of some sort of equilibrium while successfully accomplishing the transition will require great sympathy, tact, and patience on all sides. However, on the ruling and dominant groups, the transition will make much greater demands. They will have to show readiness to shed, with good grace, positions of prestige, privilege, and advantage in all directions social, political and economic—positions which they have come to hold through the operation of the traditional structure. If the transition is successfully and peacefully effected through action of the existing ruling groups themselves, democracy will be strengthened and no liberties will be endangered.

What are the impending dangers in the process of transition? The situation in this regard differs greatly from country to country. The major common problems concern the behaviour of groups holding, in the main, political and economic power. In part, these represent vestiges of the older order and, in part, they are growths arising out of modern developments. The vestiges belong to aristocratic, priestly, etc. classes, and are usually based on concentration of property in land; the new growths are related chiefly to the rise of modern business. It is generally agreed that the state must take an active part in breaking the power of the older groups. The removal of social privilege or disability, and the attainment of political

equality are acknowledged objectives of state action. Even in the economic field action against older elements is welcomed, as evidenced by the universal interest shown in land reform programmes. However, when it comes to corrective or preventive action in relation to similar phenomena connected with modern business, there appears not only lack of understanding but also concerted and strong opposition which is supported, evidently, by important elements from among the older democracies.

The extent of economic inequality in the new states is greater, usually much greater, than in other parts in the world. Because of the peculiar structure of society, the direct and major benefits flowing from the possession and control of modern productive resources and activity are restricted to a small number of groups in this society. As economic development takes place and modern business grows, the wealth and power of these groups tend to be progressively increased. On the other hand, with the disintegration of traditional society the older types of security and protective measures lose their operative force, and more individuals in rural society and urban artisan, etc., classes are dispossessed and cut adrift. Within the cities the concentration of wealth and power is glaring and naked, and the proletarian mass grows apace in number. As between the country and city, opportunities and standards differ widely.

In this situation, without vigorous social action the economic or the social problems cannot even begin to be solved. However, the groups that possess power and wealth are against any such social action. They welcome and, in fact, deliberately bring about regimes of protection, subsidies, export and import control, etc., which give them a sheltered position within the internal market. They are anxious that public outlay on economic overheads in relation to transport, energy, and other systems be undertaken on a large scale. But they do not desire that the area of public trading or industrial activities be increased, or that concentration of economic power be curbed through appropriate regulatory regimes, or that any significant social security or welfare programmes be undertaken; they would not accord high priority to large expenditure on mass education.

Significantly, this opposition often takes the form of a cry for "economic liberty", for scope for individual initiative, and freedom for private enterprise. To the "liberal" intellectual, drawn from the groups in which economic power is concentrated in India, even such action as procurement and distribution of food in face of shortages or state encouragement of the co-operative efforts of small and poor producers appear as precursors of authoritarianism; and he talks of "production before distribution", whatever the phrase may mean.

The private enterprise on whose behalf the cry is raised belongs, in the main, to the category whose position and practices would be clearly labelled as monopolistic in other countries. Even so, the cry is fully taken up by

many forces in the Western world. The international organizations betray a marked bias in favour of these interests when any loan, etc. programmes are considered. The activities of the large international combines and joint investment groups inevitably result in strengthening the position of their counterparts in these new states; and even the intellectuals from abroad preach to the peoples of these states on the merits of hastening slowly and the dangers and difficulties of over-egalitarianism.

Domestic interests take full advantage of this climate of foreign opinion and put forward — it is unknown with what justification — the plea of foreign disapproval for not pushing ahead with “extreme” policies. One has heard the whisper go round that there should be no talk of even partial “socialization” of wholesale trade in food-grains, or that it was undesirable to press forward with the programme of creating an essential nation-wide State Bank, because “the Americans do not like these things”.

It is contended that in the older democracies two elements effectively moderate the influence of pressure groups. Firstly, because of overlapping membership no group ever comes close to having the characteristics of a class; and secondly, the more powerful organized groups, those having privileged access to government, recognize the existence of unorganized or potential interest groups and pay some attention to their interests. In the new states neither of these safeguards works. Because of the structure of these societies, economic development leads to the groups previously in control of economic and financial activity acquiring the characteristics of a class and, at least so far, modern big business in these states has not shown itself enlightened enough not to abuse its privileged access to government.

The supposed conflict of equality and liberty is false. Egalitarianism in the context of these countries is a highly relative term. Nobody can or does contemplate a programme that will bring about in these countries, in the near future, the degree of equality that exists, in fact, today in, say, the United Kingdom or Japan. The programme called “socialistic” includes little which is not accepted in principle and practised in, say, the United States under the anti-cyclical or social security measures and nothing which is not part of accepted government policy in the United Kingdom. It usually includes some enlargement of the public sector, so that basic, major investments are properly made and their fruits conserved for economic development and social progress; and aims at maintenance of stability, stopping further increase in the concentration of power and wealth, making a beginning with the humbler forms of social security, encouraging decentralization, strengthening co-operatives, and making a beginning in the building of an open national educational system. Unless such a programme is rapidly pushed ahead, there is little hope of a peaceful social transition. In face of the concentrated and growing strength of big business in these countries, the only possible countervailing force is action by the state.



It has been argued that democratic forms have meaning only when there exists in society a basic minimum national level in education and when conditions of economic security and living are such that men do not have to worry about their survival. If this is agreed to, urgent implementation of the so-called "egalitarian" programme in the new States is no more than an essential condition for the functioning of democracy and the preservation of public liberties.

## VIOLENCE IN PUBLIC LIFE\*

THE levels of social conduct and operation in any society, are dependent on its traditions and its values. India has a long tradition of civilised social life. However, historically there have been frequent interruptions in the even tenor of social life and development. Further, a number of values related to older social organisations are not wholly appropriate to modern large-sized democratic society.

In the immediate past, the base and form of political authority of British colonial rule were necessarily completely authoritarian. Further, this authoritarian framework imposed by a foreign colonial power did not hold indigenous social groups together in a cohesive frame as earlier authoritarian indigenous rulers had done; the fissiparous forces in Indian society were, in fact, encouraged to grow by the British. The main cohesive factor in the last decades of British rule arose out of the political anti-British struggle.

At Independence, the entire administrative structure together with its authoritarian frame and disposition remained unchanged; the ruling stratum at the top was, however, radically changed in character. When this happened, a number of changes took place. First was the progressive loss of unity and cohesion among the new political rulers and, second, the failure to replace the old ideological or idealistic elements by similar elements appropriate to the changed situation. Barring the struggle for the formation of states on a linguistic basis, no new force emerged which could place the various social groups and communities in a region or in the country as a whole, in a single cohesive frame.

The characteristics of the administration and its processes remained unchanged. There was, however, continuous erosion of the fear of authority, which was the mainstay of colonial rule. This was the result both of the complete Indianisation of all personnel and of the top structure of political authority being linked to continuous elections. There was no greater rapport than before between the administrator and the people and the distance, the callousness and the ultimate dependence on the use of force, which necessarily characterised the colonial administration, continued as before. But, the sense of responsibility amongst the highest officials was greatly undermined because of the loss of power relating to ultimate decision-making which was now transferred to the politicals.

\* *The Realist*, Vol. I, No. 3, January 1967, pp. 15-19.

At the same time, except for disturbing regular procedures in favour of particular persons or institutions, administrative action remained almost entirely within the purview of officials, as those in political power would or could not give any new direction, or set a new pattern. We had, thus, an administrative structure which was almost as much alienated from the people and authoritarian in its attitude and outlook as before but which held itself much less responsible than before for giving positive direction to the administrative machine or for seeing that it did not break down. While the attitude of the administrator remained unchanged that of the politician in power exhibited progressively loss of ideology and idealism and greater assumption of realistic attitudes in relation to the acquisition and exercise of political power.

In the exercise of political power, two features acquired significance. The first was that of democratic electioneering. This required large organisation and, as ideological fervour abated, continuously more money. The continuance of an ideological and sentimental bond as, for example, among the followers of Dr. Ambedkar, or, possibly, among the Communists, might lessen the need for money; such cement was the most lacking in the ruling party. The need for money to maintain and operate their organisation became all the greater.

The second factor was the intrusion of the state in economic affairs and the adoption of a plan of rapid economic development. This vested in politicians and administrators considerable power in relation to regulation of details of economic life and, because of the many prohibitions and regulations accompanying the plan of development and because it led to the creation of closed markets and greater opportunities of gain in particular situations, the exercise of discretion in regulation of economic affairs became closely linked to conferring of opportunities for making large gains.

The possibilities of this linkage were appreciated by politicians very early. For the politicians and for the political machine, exploitation of these possibilities became necessary for their very existence and functioning, but the use of these opportunities by the politicians led inevitably to a warping of the formulation and direction of economic policy and creating unintended and anti-social gains for the industrialists, traders and speculators, who were subjects of economic regulation and for the whole administrative cadre who operated the system in detail. In the ultimate analysis, the large growth of corruption in the last two decades, is due to these twin sets of circumstances, viz. finance of electioneering and the possibilities afforded by administrative and economic regulations.

Corruption was not absent during British colonial rule. For example, Departments such as those of police, excise, registration were notoriously corrupt. However, the extent of corruption was checked by, on the one hand, some fear of the highest authority, that is, British personnel, and by the limited possibilities open to the bribe-giver. As the opportunities

to the bribe-giver were greatly enlarged and as the highest ranking became involved in the process, it has become much more rampant, universal and on an enormously larger scale.

The decline of ideology has been noted as a prominent trend in the post-war western world where the emphasis on equality also seems to have suffered a setback. Both these features may be associated with growing affluence and a substantial increase in the standard of living of the lower strata. Conditions in India are extremely different and we cannot afford developments parallel to those in the richer western countries. For making peaceful economic progress, a cohesive and disciplined society is an essential requirement in poor under-developed countries. Ideology sets high objectives before the people and enthuses them to incur hardships for their attainment. We cannot, therefore, do without ideology. Also in a highly unequal society such as ours, trends towards equality are extremely important. It is only if an egalitarian policy is actively pursued does it seem possible that the poor classes could voluntarily accept hardships or postponement of betterment.

The developing situation in India is thus highly inimical to those conditions of political and social stability which are essential for economic progress. Not only is there no change in the authoritarian and essentially unsympathetic attitude of officials, high and low, to the people at large, but also there is no evidence of any diminution of the importance of the hierarchical principle, in the operation of our society. The composition of the top strata may change, but privileged positions and the pomp and ostentation accompanying them remain. There is yearning after VIP positions and special treatment continues to be accorded to VIPs even with obvious inconvenience to members of the public. In arrangements and operations at public places, railway stations, etc., high attention is given to the requirements of the dignitaries and affluent, while there is almost complete neglect of the poor, the lowly and the distressed.

The convention is concerned primarily with the recent growth of violence in most regions of India and in many walks of life. This manifestation of violence has not erupted suddenly; it is merely the extreme form assumed by the general, continuous growth during recent years of intemperate behaviour and expression in public. The convention must condemn this trend and must consider what action even private individuals or small groups can take to reverse or at least to contain it. At the same time, attempts must be made to discover factors that are responsible for setting the trend in motion. It is only in the light of such diagnostic effort that one could suggest measures to deal with the situation which could have lasting effect.

In this brief note I can put forward only a summary of what must be considered as a personal view. I consider that the prevalence of callousness and the growth of corruption in our society, especially among the upper

strata and the governing classes, combined with changes of attitudes and expectations on the part of large sections of the governed are responsible for recent developments. Factors making for the growth of corruption have been indicated above.

Callousness, or what appears as such today, has been always with us. Traditionally it has been associated with the hierarchical and authoritarian structure of our social, political, economic fabric. It was heightened by the compartmentalization of Indian society into relatively small and fairly sharply separated caste and community groups. Forces evoking feelings of broad, general loyalties were always somewhat weak. Therefore, most people showed concern about the well-being of those belonging to their own group and for the most part paid little attention to the fortunes or interests of the rest. Attitudes born out of the old order continue in the present to a large extent. The principle of hierarchy and the practice of ranking remain generally prevalent and the division by caste and community has still wide-ranging effects. Apart from this, attention may be drawn to two special aspects of what I consider to be current callous behaviour.

These are neglect of or indifference to the poverty and distress that surround you, and readiness to break the law or indulge in behaviour which inflicts high social costs or involves long-term social damage, for even trivial gains accruing to oneself or one's own social group. The former is fully exemplified in ostentatious expenditure and wasteful and high level consumption of food which has been growing in ceremonials, festivities and feastings everywhere during the last decade, and which has not abated even in the difficult period since 1963. The latter is most frequently seen in the universal readiness to break the law or to give bribes to obtain small advantages or preferential treatment.

It is notable that a politician of standing who had held the highest offices in the land, has been known to have publicly justified bribe giving. The readiness to give bribes in order to obtain small, temporary advantages for oneself is a sign of both the callousness and the corruption that pervades our society. Entertainments or other apparently small favours accepted by politicians or high officials are evidently not considered as corruptive by themselves. By the public at large, these are considered as evidence of the close collaboration of the higher officials and the politicians with members of the vested interests; these stand to profit most by obtaining discrimination in their favour and are in the best position to distribute large or small favours, covert or overt. It is only against this background of the total situation that we can understand the prevailing growing trend towards intemperate behaviour and violence.

Fear and dread of authority no longer prevail. The source of authority is not distant or unknown as in British times. Its susceptibility to indigenous local influences is growingly in evidence. Its exercise is often seen

to be weak and halting. Respect, love or sense of participation have not replaced fear and dread, at least not to a sufficient extent. Continuous callousness and growth of corruption among the ruling classes have prevented such a changeover of feelings. Added to this, or another manifestation of it, is the growing loss of confidence in the efficiency and even the justice of government. In a number of states not only has confidence in administration and justice been greatly undermined but also a proper consideration of complaints or attention to grievances is no longer expected.

What has been set out above with particular reference to state administrations and politicians has universal validity and application. It applies to exercise of authority and operation of the administrative apparatus of all organisations — official, semi-official, private — in all other sectors — economic, social, educational etc. As the total result, a proverbially docile people have been driven to a stage where intemperate behaviour and perchance violence appear to them the only means of calling attention to their distresses and grievances.

If the above analysis is correct, preaching of non-violence and condemning violence is by itself not enough. In some cases, as in Bombay city recently, such preaching may as a matter of fact be associated closely with the protection of vested interests. While, therefore, violence must be condemned and intemperate behaviour discountenanced, means must be found, at the same time, to do something about the conditions that generate violence. The convention would be considering the problems on a non-party basis; it would be concerned not primarily with the behaviour of politicians and political parties, but with that of the large bulk of the people not actively associated with politics. The convention has thus to try to influence, in the first instance, individuals and social groups outside of politics hoping that the influence of such action will ultimately affect the politicians, the administrators and the people in authority everywhere.

The situation is so serious that the mere expression of opinion or the passing of resolutions would prove utterly insufficient. The convention has to attempt to initiate action which may be expected, in time, to have important repercussions. In the first instance, such action has to be defined in terms of individual behaviour and behaviour of such smaller social groups as can immediately join in. Ultimately, it is the standing and importance of the individuals and the influence of their overt articulated behaviour that is expected to be effective. This programme of individual action has to be related to all aspects indicated above: to violence and to what I have defined as callousness and corruption. Standards of public behaviour are, I believe, a function of all these.

It is not necessary to spell out in detail what might be the sorts of obligations that the individuals who commit themselves to this programme might undertake to observe. Firstly, it would involve eschewing violence and intemperate behaviour or language on one's own part and dissociating

overtly and publicly with all those including newspapers or other media, who indulge in these; added to this one must accept the responsibility, wherever possible, to intervene and prevent manifestation of violence or intemperate behaviour. Similarly, in relation to corruption: taking the greatest precaution, that in any of one's own activities one does not extend or accept a favour likely in the least to influence the social or political process in one's family's or in one's group's favour directly or indirectly; also one explicitly dissociates oneself with persons known to be so influenced or so influencing, and dissociates with all functions, ceremonies, etc. which obviously have such intent even if indirect.

Direct individual action in the sphere of callousness is more difficult to define. One could at least abstain from asking for privilege or special treatment if highly placed and use such influence as one has to get attention paid specially to the poorer and lowly. Moreover, one could abstain from such ostentatious display or expenditure as is unseemly in an individual citizen of a poor country in great distress. At least, in terms of expenditure at festivities, ceremonials or in social entertainment, one could display a very high standard of self-imposed sumptuary regulation and one could overtly and explicitly dissociate oneself from all ceremonial festivities and entertainment, in which minimum standards of these are disregarded. This is merely indicating an approach which I am sure a set of earnest persons could easily elaborate.

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*Zamindari* tracts 172  
 Zilla Parishad (Z.P.) 306-308  
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