

INDIAN ECONOMICS

By the same authors

INTRODUCTION TO ECONOMICS

PART I: ELEMENTARY PRINCIPLES OF ECONOMICS

PART II: ELEMENTS OF INDIAN ECONOMICS

ELEMENTARY ECONOMICS

INDIAN ECONOMICS

A Comprehensive and Critical Survey

BY

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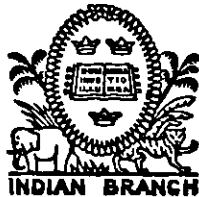
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PREFACE

The pace of economic development in India has been quickened appreciably in recent years, especially since the outbreak of war in September 1939. Although less than three years have elapsed since the last edition of this volume was published, extensive changes have had to be made in almost every chapter. In revising the volume for this sixth edition opportunity has been taken to bring facts and figures up to date and to review the economic position in India in relation to recent world trends, especially after the 'recession' of 1937-8 and the commencement of the present world conflict.

In Chapter I, 'Industrialization: Means and Methods', the adjustments of the policy of discriminate protection to the conditions created by the war and the new official schemes of training war technicians have been noticed. In Chapter II, 'Industries: Old and New', the acceleration of the pace of industrialization of the country, stimulated by the war, and its effects on the several major industries of the country have been indicated. As regards cottage industries, recent measures of State Aid and the series of useful recommendations made by the Bombay Industrial and Economic Survey Committee (1938-40) have been reviewed. In Chapter III, 'Industrial Labour', the progress made by labour legislation, especially in the Bombay province, and the reactions of the war on the relation between capital and labour and on the economic condition of the industrial worker in this country have been dealt with. Owing to the delay in the publication of the final report of the Bombay Textile Labour Enquiry Committee, the main recommendations made by that body have been surveyed in Appendix I at the end of the present volume. In Chapter IV, 'The National Dividend', the latest estimate of India's national income as given by Dr V. K. R. V. Rao has been discussed. In Chapter V, 'Transport', the effects of the present war on India's transport system with special reference to railway transport and finances and the three great projects, viz., the shipbuilding yard, the aircraft factory and the proposed automobile factory have been examined. In Chapter VI, 'The Trade of India', the effects of the war on India's foreign trade and balance of trade have been noticed, and the findings of the Gregory-Meek trade mission to the United States of America have been scrutinized. The two chapters on Currency and Exchange (VII and VIII) have been brought up to date, and the effects of the war on the currency

and exchange situation in the country have been fully discussed. In Chapter IX, 'Prices in India', the course of Indian prices in relation to world prices after the 'recession', more particularly since the beginning of the war and its effects on Indian economy have been surveyed, and the pros and cons of the price control policy of the Government have been examined. In Chapter X, 'Banking and Credit', various recent happenings in the sphere of Indian banking, such as the South Indian Banking Crisis (1938), the proposals of the Reserve Bank for an Indian Bank Act etc. have been reviewed, as also the reactions of the war on the Indian money market and the banking system. The revised Chapter XI, 'Finance and Taxation', deals with the financial position of the provinces after the inauguration of Provincial Autonomy, the working of the Niemeyer Award, the introduction of new provincial taxes such as the Sales Tax, and the fortunes of Central (General) and Railway finances as reflected in recent budgets, especially since the beginning of the present war. The discussion of changes in income-tax under the Income Tax Amendment Act of 1939, war-time taxation and borrowing, the position of the defence budget in recent years and the scheme for the repatriation of India's sterling debt, is a special feature of the revised Chapter on Finance and Taxation. In Chapter XII, 'Unemployment', reference has been made to the recent scheme of the Government of Bombay for providing for vocational education for boys who have no aptitude for higher literary studies. In the last Chapter, 'Indo-British and other Trade Agreements', the new Indo-British Trade Agreement of 1939 has been scrutinized, the Indo-Burma Trade Agreement (1941) outlined and evaluated, and recent (1939-40) negotiations for a fresh Indo-Japanese Trade Agreement, which have since been abandoned *sine die*, have been reviewed.

Bombay
September, 1941

G. B. JATHAR
S. G. BERI

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APPENDIX I

REPORT OF THE BOMBAY TEXTILE LABOUR ENQUIRY COMMITTEE (1940)

§1. **Main conclusions and recommendations.**¹—The final Report of the Textile Labour Enquiry Committee appointed by the Government of Bombay in April 1937 was submitted to the Government in July 1940 and was released for publication early in June 1941.²

The recommendations made by the Committee in their final Report cover a wide field and relate to various progressive measures for the benefit of the textile labour in the province as well as schemes for the better running of the industry. The main recommendations of the Committee are summarized below.

(i) *Living wage standard.* The evaluation of a living wage standard would not, in the opinion of the Committee, penalize in a special manner the textile industry in the province. Further, such evaluation need not necessarily be preceded by an all-India inquiry covering all industries. For a typical family of husband and wife and two children, the range of total expenditure for maintaining a living wage standard is estimated by the Committee between Rs. 50 and Rs. 55 for Bombay [Rs. 23 (food), Rs. 12 (rent) and Rs. 15 to 20 (other items)], Rs. 45 and Rs. 50 for Ahmedabad, the range for Sholapur being Rs. 3 to Rs. 5 less than for Ahmedabad. The Committee are not in favour of making any allowance for the earnings of the wife and for supplementary sources of earnings, if any. For the bulk of the workers in the industry earnings fall short of the living wage standard.

(ii) *Minimum wage.* Minimum wage-fixing machinery is today considered to be necessary for all industries where labour is unorganized or weakly organized. The Committee do not agree that the Bombay Industrial Disputes Act (1938) dispenses with the need for a special machinery for fixing or revising minimum wage rates. It would not be sufficient to restrict the regulation to a single general minimum; all occupational grades in the industry must be covered and this can best be done through the machinery of the trade board. The Committee recommend the establishment of a trade board for the cotton textile industry of Bombay province on the lines of boards established under the British Trade Boards Acts of 1909 and 1918. It should be composed of an equal number of representatives of employers and workers, and should also contain some independent persons. The main duty of the board should be to fix the minimum time and/or piece rates for as large a body of workers included in the industry as possible.

¹ See *Report of the Bombay Textile Labour Enquiry Committee*, pp. 382-428, and *The Times of India*, 5 June 1941.

² See ch. ii, §§19-20.

(iii) *Standardization of wages.* The Committee agree that advantage should be taken of the adoption of schemes of standardization to reduce disparities. This should be achieved not by effecting cuts in the rates for any occupation but by a process of levelling-up when the standardization lists are framed. If a uniform standard is to be achieved for all the centres, it is essential that while applying it to the various centres proper allowance should be made for variations in the cost of living. The Committee hold that the existing level of wages is, at the level of the cost of living ruling in August 1939, suitable for times of normal trade. The Government should appoint a Standardization Committee for Bombay for the purpose of attending to the working out of the details of the scheme, watching its operation and making suitable adjustments in it.

(iv) *Automatic adjustment of wages.* It is neither desirable nor necessary to recommend the adoption of a sliding scale based on any cost of living index number in the cotton textile industry in this province. The Committee do not consider that a scheme of automatic adjustment of wages can be used as a means to attain a living wage standard. They do not, therefore, recommend that any attempt be made to set up arrangements for the automatic adjustment of wages in the cotton textile industry.

(v) *Working of shifts.* A night shift as a permanent and regulated feature may provide increased employment in any industry, but the spasmodic working of night shifts, while temporarily offering additional employment, ultimately aggravates the evil of unemployment by attracting to industrial centres an unduly large number of men. The Committee suggest that an All-India Industrial Council be established to examine, among other duties, the question of regulating night shifts for the whole country.

(vi) *Rationalization.* The Committee use the term rationalization as including efficiency schemes and urge that India must take the greatest advantage of all means and resources at its disposal which will enable it to stabilize the cotton textile industry and to face successfully the competition of other countries which have attained a high degree of efficiency in production. If the use of methods of rationalization reduces the cost of production, raises the wages of workers and cheapens cloth, the Committee have no doubt that India in general and the province of Bombay in particular stands in need of adopting such measures. An average textile worker in Bombay or Ahmedabad is capable of turning out as much and as good work as his compeer in industrially advanced countries, if he is properly looked after and trained and if there is co-operation between him and the management. No employer should be permitted to introduce any rationalization scheme and no worker should be permitted to go on strike on the proposed rationalization scheme until the matter is finally disposed of either by a representative Rationalization Committee, which should be established by the Government, or by the Industrial Court.

(vii) *Financial and industrial reorganization.* The Committee are of the opinion that in the existing circumstances of the cotton

textile industry better results are likely to be attained by economies accruing from close personal attention than from production or management on a larger scale. The formation of pools for certain specific purposes represents a more modest method of reorganization which has, within degrees, yielded satisfactory results. It is worth while examining whether, by extending the scope of joint action in the direction of joint purchases of stores, substantial economies cannot be secured in all centres of the industry. The division of markets on the basis of sources of supply, the allocation of the production of specialized sorts to specific units or centres, and a better joint organization of the export-markets for the common benefit of the industry should receive the earliest attention if unbridled competition is to be checked.

The Committee recommend the establishment of a fully representative All-India Industrial Council to deal with problems relating to the cotton textile industry in the various provinces and Indian States.

No statutory limitation of dividends is called for, although in a period of prosperity it is in the ultimate interest of the industry itself to husband its resources. The payment of remuneration to the Managing Agents as a percentage of the net profits is the most equitable of the three methods of remuneration in vogue and it tends to evoke the greatest measure of effort to secure profitable working.

(viii) *Welfare work and social legislation.* It would be highly desirable if a beginning were made in the province of Bombay for the creation of a composite institute of industrial hygiene, industrial psychology and industrial welfare. A well-planned housing programme, co-operative societies, education facilities, regular medical inspection, compulsory and contributory schemes of sickness and unemployment insurance, provident funds and the establishment of an employment bureau are recommended.

(ix) *Labour management and organization.* The Committee conclude that the safeguard of the workers' right to organize without intimidation and discrimination in order to protect and improve their standards of life is the essence of trade unionism ; and employers who wish to see the growth of a sound trade union movement in the province should refrain from doing anything that may deter workers from exercising their right of organization.

§2. *Some observations on the Committee's Report.*—As was to be expected, the Report of the Committee, which is framed on an ambitious pattern, received a mixed reception, having regard especially to the present war-time conditions. Turning first to the Government view of the Report, the Government of Bombay, explaining in a *Press Communiqué* the delay in releasing the Report, point out that the Committee's findings and recommendations, which would obviously entail a considerable outlay both by Government and industry, cover a wide field of subjects not all of which fall exclusively within the purview of a Provincial Government, as was shown by the deliberations of the two conferences of Labour Ministers summoned by the Government of India in 1940 and 1941, which considered problems like sickness insurance

and holidays with pay. Certain of the Committee's findings, such as those on the living wage standard and unemployment insurance, must under the present economic conditions in the country be considered as of purely theoretical value and academic interest. Some of the Committee's recommendations relating to such subjects as the establishment of committees for rationalization and standardization of wages, the formation of trade boards, etc., will have to be subjected to careful scrutiny before any action can be taken on them. Moreover, before the Committee's recommendations can be adopted it is necessary to achieve some agreement with other industrial provinces and States, since the adoption of higher standards in one province is likely to be a handicap to industry and employment in that province, having regard especially to the fact that Bombay is already ahead of other provinces in its labour legislation and welfare work. The Government of Bombay have promised to consider in detail certain recommendations of the Committee falling within their purview in consultation with the interests concerned.

The millowners of Bombay seem to be in agreement with the views of the Government of Bombay on the Report of the Bombay Textile Labour Enquiry Committee. The abnormal conditions in the industry created by the war are considered unsuitable for implementing the vital recommendations of the Committee for some time. The millowners unanimously think that the proposals of the Committee, if accepted, will involve heavy expenditure which the industry is not in a position to bear, nor is it fair for the industry in the Bombay province alone to go ahead when other textile centres are lagging behind in respect of labour conditions. The war orders received by the industry constitute only a fraction of its total productive capacity, while the favourable factors, such as the absence of overseas competition, are of a temporary character not warranting fresh commitments of any long-range nature.

The spokesmen of labour, like Mr N. M. Joshi, think that while the Report of the Committee is encouraging, the views expressed by the Government and the millowners are most disappointing. While labour did not wish to offer a threat of any serious deadlock in the industry, the Government would not find contented labour in these hard times if they pursued the dilatory tactics foreshadowed in the *Communiqué*, unlike the British Labour Ministry which had given an assurance that the advance of social progress would not be hindered in England even during the war. As the industry is making war profits the present is an opportune time for the introduction of urgent reforms like standardization of wages, and other overdue reforms like sickness insurance and holidays with pay.

In conclusion, it may be pointed out that the Report of the Committee contains many useful recommendations which may form the basis of far-reaching legislation. While in the conditions created by the war, it may not make it possible fully to implement the various recommendations of the Committee, it should nevertheless be possible to make a beginning now in respect of some of these both because some of the reforms like sick leave with

pay are urgent and overdue, and the present moment when the war has brightened the prospects of the cotton textile industry is not altogether inopportune for adopting some measures for the betterment of labour.

APPENDIX II

SUPPLEMENTARY BANKING STATISTICS (1938-40)

The recent (July 1941) publication of *Statistical Tables relating to Banks in India and Burma for the years 1939 and 1940*, by the Reserve Bank of India, has made available statistics bearing on the position of Indian banking in recent years, and throwing further light on the effects of the war on the Indian banking system. In chapter X, 'Banking and Credit', statistics regarding certain classes of banks in India could be given only up to 1937, the latest year for which they were available until a few weeks ago. It is therefore proposed to add statistics for the three years 1938, 1939 and 1940 in this Appendix.

In the new publication referred to above, banks in India have been classified for the purpose of the statistical tables into (i) The Reserve Bank of India, which is the central bank of the country; (ii) The Scheduled Banks comprising (a) The Imperial Bank of India, which is the largest joint-stock bank in India, (b) the Exchange Banks and (c) other Scheduled Banks included in the second schedule to the Reserve Bank; (iii) Non-scheduled (Joint-stock) Banks; and (iv) Co-operative Banks.

TABLE I¹
Capital, Reserves, Deposits and Cash Balances of the Exchange Banks (see Table on p. 429)

As on 31 December	No. of Banks	Capital and Reserve		Deposits		Cash Balances		
		Paid-up capital	Reserve and Rest	Out of India and Burma	In India and Burma	Out of India and Burma	In India and Burma	
		£(1,000)	£(1,000)	£(1,000)	Rs. (1,000)	£(1,000)	Rs. (1,000)	
1938.	A ²	5	4,425	5,032	32,527	28,33,97	8,997	3,77,27
	B ²	13	63,540	58,519	1,186,233	38,86,45	250,576	2,67,14
1939	A ²	5	8,625	5,605	50,945	30,32,52	15,783	3,08,62
	B ²	14	60,884	50,151	1,473,962	43,75,30	451,602	4,30,14
1940	A ²	5	4,425	4,000	35,572	35,45,48	10,704	4,59,78
	B ²	15	64,994	55,267	1,515,000	50,11,99	588,973	11,93,50

¹ *Statistical Tables relating to Banks in India and Burma for the years 1939 and 1940*, Table No. 3. Statistics regarding Burma Banks for 1939 and 1940 have been included in this and other tables as the Reserve Bank is also the central bank for that country and the two banking systems are closely connected.

² See footnotes 3 and 4 to p. 429.

Latest available statistics up to April 1941 have already been given regarding the Reserve Bank of India (see pp. 486-7), the Imperial Bank of India (see p. 470) and the Scheduled Banks (see p. 482). Statistics relating to Co-operative Banks are given in Vol. I, ch. x, 'The Co-operative Movement in India'.

It is proposed here to give statistics for the years 1938, 1939 and 1940 in the case of the Exchange Banks and the Indian joint-stock banks, and also certain general banking statistics which illustrate the effects of the war on Indian banking (see Tables I-IV).

TABLE II¹

Capital, Reserves, Deposits, Cash Balances and other particulars relating to the Principal Indian joint-stock banks, (excluding the Imperial Bank of India). (See Table on p. 438.)

Class A.—Banks having a paid-up capital and reserves of Rs. 5 lakhs and over.
(In lakhs of rupees)

As on 31 December	No. of Reporting Banks	Paid-up capital	Reserves	Deposits	Cash Balances	Bills dis- counted and loans and advances	Investments in Government and other securities
1938	43	7.48	5.65	98.08	14.00	52.21	41.71
1939 ²	51	8.26	5.31	1,00.73	16.72	57.86	83.95
1940 ³	58	9.09	5.57	1,13.58	26.26	54.44	45.20

Class B.—Banks having paid-up capital and reserves between Rs. 1 lakh and Rs. 5 lakhs.

1938	120	1.62	79	8.72	1.29	7.74	1.33
1939	119	1.58	75	9.27	1.37	8.55	2.14
1940	122	1.67	76	11.04	2.24	8.14	2.08

Class C.—Banks having paid-up capital and reserves between Rs. 50,000 and Rs. 1 lakh.

1939	112	61	16	2.98	52	2.65	42
1940	121	65	19	2.86	59	2.59	44

Class D.—Banks having paid-up capital and reserves less than Rs. 50,000.

1939	4.00	62	14	2.63	38	2.86	23
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¹ Statistical Tables relating to Banks in India and Burma for the years 1939 and 1940, Table No. 4.

² Includes 39 scheduled and 12 non-scheduled banks.

³ Includes 41 scheduled and 17 non-scheduled banks.

TABLE III 1
Comparative position of the several classes of banks
(In lakhs of rupees)

Classification	Year	No. of Reporting Banks	Paid-up capital and reserve	Deposits	Cash Balances	Percentage of cash to deposits	Investments	Percentage of investments to deposits	Loans and advances	Percentage of loans and advances to deposits
1. Scheduled Banks.										
(a) Imperial Bank of India	1939	1	11.23	87.84	11.09	12.6	38.02	43.3	42.28	55.0
	1940	1	11.25	96.03	24.83	25.9	48.57	50.6	32.31	33.6
(b) Exchange Banks ...	1939	19	...	74.08(a)	7.39(a)	10.0	...	...	...	...
	1940	20	...	85.57(a)	16.53(a)	19.3	...	...	...	...
(c) Other scheduled banks	1939	39	11.94	93.74	16.12	17.2	36.51	38.9	52.58	56.1
	1940	41	12.67	1,06.10	25.02	23.6	42.45	40.0	48.95	46.1
2. Non-scheduled Banks										
(a) Banks having paid-up capital and reserves over Rs. 1 lakh ...	1939	131	3.95	16.26	1.98	12.2	4.59	28.2	14.13	86.9
	1940	139	4.42	18.92	3.48	18.4	4.83	25.5	13.63	72.0
(b) Banks having paid-up capital and reserves between Rs. 50,000 and Rs. 1 lakh ...	1939	112	77	2,98	52	17.4	42	14.1	2.65	88.9
	1940	121	84	2,86	59	20.6	44	15.4	2.59	90.6
(c) Banks having paid-up capital and reserves below Rs. 50,000 ...	1939	400	76	2,63	38	14.4	23	8.7	2.86	108.7
3. Co-operative Banks										
(a) Banks having paid-up capital and reserves of over Rs. 5 lakhs ...	1939	43	5.35	22.92	2.93	8.9	...	...	18.34	80.0
	1940	41	5.48	22.94	1.90	8.3	...	...	18.91	82.4
(b) Banks having paid-up capital and reserves between Rs. 1 lakh and Rs. 5 lakhs ...	1939	261	5.34	15.86	1.06	6.7	...	...	14.45	91.1
	1940	277	5.68	16.14	1.27	7.9	...	...	14.63	90.6

Statistical Tables relating to Banks in India and Burma for the years 1939 and 1940. Table No. 5.

TABLE IV

Branches of banks at the end of December 1940

Classification	No. of offices
Reserve Bank of India	8
Imperial Bank of India	390
Exchange Banks	101
Other Scheduled Banks	857
Non-scheduled Banks having capital and reserves of Rs. 50,000 or over	718
Total ...	2,074

Tables I-III bear ample testimony to the effects of the war on Indian Banking (see ch. x, §60) such as (i) large increase in deposits, (ii) lack of satisfactory and lucrative outlets for bank funds and (iii) high liquidity of assets.¹ The increase in the cash ratio at the end of 1940 is to be attributed partly to the desire of bankers to keep their position liquid in view of war conditions and partly to the slackness of demand for trade finance during the latter half of 1940 as a result of war developments.

The general impression left on the reader is that the Indian banking system has successfully withstood the onerous strain placed upon it by the conditions created by the war and the exigencies of financing it.

¹ *Commerce*, 9 August 1941, p. 157.

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