

Conflict of Economic Ideologies in
India An Attempt At Reconciliation.

By-

Sudhir Sen.

BVA-BHARAT ECONOMIC RESEARCH STUDIES



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TO GURUDEVA

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CHAPTER I—INTRODUCTION.

Much has been said and written both for and against cottage industries in this country. The philosophy of charka has been opposed to that of large scale industries and vice versa. With the passage of time the controversy has grown both in volume and intensity, though as a result the public seems to have been more confused than enlightened.

This conflict of ideologies was forcefully illustrated by the debates which took place at the various meetings of the National Planning Committee. The representatives of the All India Spinners' Association and the All India Village Industries Association expressed their point of view with an exuberance of sentiment, which, however laudable in itself, was not always relevant to the subject-matter of discussion. The advocates of large scale industries listened to these outbursts with feelings in which pity and impatience were mixed up in varying proportion. But in the presentation of their own thesis they seem to have been no less actuated by the belief that the most effective means of converting others was an emphatic reiteration of one's own viewpoint.

Both schools have, unfortunately, put forward the embarrassing claim of indivisibility for their respective thesis. As an inevitable outcome there has been endless discussions which, like two parallel lines, promise to move into eternity without showing the slightest inclination to meet at any point. Truth may be found through discussion, but we seem to have forgotten the obvious truth that all discussions do not necessarily lead to it.

Confronted with such contradictory schools of thought, one might expect some light from the professional economist. For

it is pre-eminently his function to scrutinise every economic doctrine which is publicly advocated and discover whatever core of truth there may be. It is little exaggeration to say that in this task of separating the chaff from the grain the efforts of the Indian economist have, in general, been attended with indifferent success. This, again, is due to the peculiar difficulty under which he usually labours. The science with which he is equipped, is of occidental birth so that it starts off with assumptions which are relevant mainly to Western countries. The serious pitfall which thus faces him, might have been avoided, had he been sufficiently conversant with Indian conditions. Unfortunately his fund of firsthand information on the economic problems of the country is often limited so that the inevitable limitations of a pure academician tend to be more conspicuous in his case than in the case of an economist abroad. This relative failure of the professional economist is in no small measure responsible for the fact that even to-day we are as far as ever from a clear-cut formulation of a rational economic policy on which all those who are genuinely solicitous of the general welfare of the country, could readily agree.

CHAPTER II—NATURE OF CONFLICT.

The general public, it may be presumed, is conversant with the nature of the ideological conflict so that it is hardly necessary to reproduce in detail the ideas of the different schools. All that is needed for our present purpose is to focus attention just on those points round which the controversy has been raging.

Those who advocate large-scale industries take their stand on the obvious fact that as a means of production machine is much more efficient than the human hand. In a modern factory one can produce many times more goods than in cottages. With

the growth of modern industries wealth is bound to increase by leaps and bounds. There will be much more to go round and, in consequence, all will be better off: Machine alone can lead us from want to plenty. The more of machinery we have, the better. Mass production is the only remedy for mass poverty.

There is truth in this line of thought, but it is not unalloyed truth. The problem is not as easy as the "machine school" would have it. For the counter-argument of the "charka school" sounds equally plausible: There are millions of idle hands in this country. This is an unquestionable fact. If you move about a little in the country-side, you will see it for yourself. Now, these idle hands do not move at all except for feeding themselves. If you can induce them to spin a little yarn, to weave a piece of cloth, to press a little oil, to husk some seers of paddy, to produce a few sheets of paper or a few pieces of soap, they will earn something and to that extent some addition will be made to the national wealth. This addition will admittedly be small. It is almost a shame that so many hands will produce so little. Yet something is better than nothing, and until we can open up more productive channels of employment, it is as well that they should remain employed in these modest undertakings.

The machine school usually finds this argument a little embarrassing. He can neither accept nor reject it. For on the face of it, it appears almost unanswerable and yet it runs counter to the cherished faith of this school, that in a machine age there can be no place for medieval methods of production. He tries to disarm his opponent with a general reply: If you develop large-scale industries, you will create new avenues of employment. There will, in the long run, be no more unemployed, and, what is more significant, the unemployed of to-day will then earn much more than is possible through charka or ghani or dhenki.

The "charkaite" regards this optimism as unwarranted. Such generalisations based on purely abstract considerations

may no doubt be attractive, but they are, he insists, contradicted by past experience. In 1937 there were in the whole of India only 18,01,000 workers employed in all the factories which come under the Factory Act. As regards the cotton textile industry, there were altogether 423 mills with 5,69,000 workers. It is quite clear that with industrialisation the total number of employed hands decreases considerably. Machine, in other words, ousts men out of employment. If highly industrialised countries like England and the United States are in peace time saddled with several millions of unemployed, the number of unemployed people in a fully industrialised India will be very much higher because of her unusually large population.

The "machinite" still displays some misgivings. For, after all, the question cannot be one of simply employing all the people in some form or other, but of employing them as productively as possible. Why should we glorify drudgery? Charka, ghani and dhenki can bring only a few pice a day. As instruments of production they are no good. It is best to discard them. There is no reason why all the people cannot be employed in factories. For the number of working-hours can be correspondingly reduced. People will in the end have more leisure and at the same time a higher standard of living. And this is what it should be. This is what is meant by economic progress. In England and the United States unemployment has no doubt persisted in spite of industrial progress. But we have to take a leaf from the history of Russia which has in recent years successfully demonstrated how industrialisation can raise the average standard of living without necessarily creating the evil of unemployment.

A reference to Russia can hardly allay the doubts of the charkaite. It appears to him like an attempt to equate one unknown quantity to another. In reply he points out that the information on contemporary Russia is much too meagre. Her achievements have been so variously assessed that the public in a distant country is at a loss to know their real worth. In

any case Russian experiments are so recent that it would, to say the least, be premature to give a final verdict at this stage.

Here, then, are the salient features of a debate which has taken place in this country over and over again without showing any prospects of early termination. As will be seen later, one half-truth has been pressed against another and both parties have mistaken part for the whole. What are, in fact, complementary, have been treated as antithetical. As a result the controversy has received an unusually long lease of life.

CHAPTER III—NEED FOR A NEW APPROACH

The fundamental aim of economics is to provide a solution of the problem of poverty. Its task is to tell us how to attain and maintain an adequate standard of living for all sections of the community. The question therefore resolves itself into two parts : how to increase national wealth progressively and how to distribute it equitably among the whole population. Production and distribution are the twin pillars of economic theory.

It is now increasingly recognised on all hands that the principles of distribution prevalent in so-called capitalistic countries are far from satisfactory and call for a radical re-examination. In spite of the hardship they have imposed on large sections of the community, they have been tolerated needlessly long. It is, however, clear that, pending any major revision of the principles of distribution, relief may be expected from a rise in the volume of production. Other things remaining equal, the larger the size of national wealth, the greater will be the per capita income.

In India where only in very recent years a faltering start has been made in the use of modern science for the exploitation

of resources, the question of an increased volume of production is of overwhelmingly greater importance than that of a juster distribution. If the "national cake" were split up into as many equal slices as there are people, each would no doubt receive a bigger share, but the increment would be so small that it would not help matters much. When countless stomachs are empty or semi-empty, a few extra morsels per head, though welcome, would prove far from adequate. The primary problem is not how to cut the national cake more finely, but how to increase its absolute size. As national wealth increases, the problem of distribution will in all probability loom larger before our eyes if a tolerable standard of living is to be ensured to the individual. But for the present and perhaps for a long time to come, we shall have to look mainly to the production side for a solution of the crippling poverty of our masses.

2

To-day we shall perhaps have no more difficulty in agreeing on one point, namely, that the economy of a country should be so organised that no individual should be left with an income which is below the level of subsistence. The nineteenth-century callousness which was bolstered up by a crude formulation of the theory of survival of the fittest, has inexorably given place to a new social awareness. The cry: "Bread for all before cakes for some" can no longer be seriously challenged. The Indian counterpart of this cry is that no section of the population should be left to die of hunger. The only postulate which we require for our analysis is that we should, first and foremost, aim at feeding and clothing the entire population. If we can agree on this point, we shall perhaps agree on many more.

It follows at once that an idle hand is a social loss. The wealth of a country, that is to say, all the goods and services

combined may be said to constitute a social pool. As everybody has to be fed and clothed, he is, ex hypothesi, entitled to a share of this pool. But if unemployed, he cannot add anything to it. He thus becomes a social burden. From the community point of view, the greater the number of such non-working dependents, the lower would be the general standard of living. The position is essentially not unlike that of a joint family. All the members may not have the same earning capacity. Some may actually consume more than they contribute to the total family income. But an absolutely idle non-earning member would be a liability pure and simple. There is thus undeniable truth in the attitude of the advocates of charka that something is better than nothing.

Something may, however, be better than the "something" of the charkaite. It is not simply a question of making a contribution to the social pool. Clearly, the larger this contribution, the better for the individual and for the community. In other words, if there are sources, from which the unemployed can earn more than through charka or dhenki or ghani, then these must be tapped. The problem at this stage resolves itself into one of investigating all possible channels of employment and of calculating the net income which may be derived from each of them. The argument of the charkaite may be countered only by showing that there are other methods of employing the idle which would bring them a higher income.

To put the same thing in a different way, the national wealth will be at its maximum only if two conditions are fulfilled : that the whole employable population is at work and that its productivity is as high as possible. The charkaite is on the right track in so far as he insists on finding some work, however humble it may be, for the unemployed or for the utilisation of the idle hours of those who are usually regarded as employed. He has, however, not troubled himself about the other condition, namely, the productivity of the working population, although as will be seen later, the presumption is that, placed as

we are to-day, even the relatively primitive kinds of employment cannot be dispensed with if a state of full employment is to be reached in practice.

It may be mentioned here in passing that it is not enough to point out that a mill-hand produces 50 or 100 per cent more than a cottage worker. If, as a result of the employment of one person in a factory, ten cottage workers are thrown out of employment and cannot be absorbed elsewhere, then the result would be a net economic loss as long as the rate of production of the factory worker is not at least ten times higher than that of a cottage worker. Even then there would remain the social aspect of the question. Unemployment in itself is an evil and as such must be set against any extra income which may be derived from factories. Even if this social consideration were ignored, it is clear that, from the strictly economic point of view, we must compare the total wealth, say, cotton textiles produced by all the cottage workers, with the total wealth created by all the workers in cotton mills and not simply compare the efficiency of the average factory hand with that of the average cottage worker. For, all said and done, the fact remains that machine very often economises just that one article of which, luckily or unluckily, there exists no scarcity in India, namely, human labour.

From what has been said above it is clear that economic policy should be so moulded as to enlarge national wealth. At this stage there arises a difficulty which has often proved a formidable obstacle to clear thinking. The community consists of individuals. National welfare is therefore the sum total of individual welfare. Does it not follow that when an individual acts so as to safeguard his own welfare, he also makes a contribution to that of the community? As everybody is eager to increase his own wealth, national wealth automatically increases.

Leave things to the individual and all will be well, one might argue. Why should we trouble ourselves about the size of the national wealth? Where is the necessity of a conscious policy to augment it?

Every student of social science is aware of the tremendous influence exercised by this line of thought on the social and economic policy of the nineteenth century. Enlightened self-interest was the magic formula and was regarded as the best safeguard for community interests. An identity was established between individual and collective good. The outcome was *laissez-faire*.

Perhaps the most significant development in the field of social thought in recent times has been a growing recognition of the fact that this identity, so comfortable to the older generation of social philosophers, was reached only by some serious miscalculations. Experience, too, showed at every turn that public weal and private interests could clash and that the individual could gain at the expense of the community. Those who were wedded to a formula-ridden way of thinking, blinked for a long time at the cracks which were becoming increasingly evident in their system of social philosophy. Instead of re-examining their faith in the light of facts, they challenged the facts in the light of their faith. The process, however, could not go on indefinitely. Soon it became a losing battle. The accumulating volume of factual evidence accompanied by growing social unrest forced their attention and in the end wore down their opposition. *Laissez-faire* has been more and more on the defensive. The idea of planning has already won numerous converts.

What is called a free economy, that is to say, an economy which is based on unfettered competition among individuals and is accompanied by non-intervention on the part of the State, was, even before the outbreak of the present war, nowhere to be found in its unadulterated form. One could at best speak of a relatively free economy. Russia for over twenty years

provided the nearest approximation to complete planning. The economic systems of the totalitarian countries, though not as fully based on planning as those of Russia, were nevertheless more planned than free. On the other hand, even in the so-called free economic systems state regulation played a very important part, though they were definitely more free than planned. The one-time antithesis between a free and a planned economy has thus lost most of its force. Every economy has come to include an element of both, though in varying proportion. There are, in other words, degrees of planning and, paradoxical as it may seem, the choice now lies between what may be called planned planning and planless planning.

The weakness of the so-called free economies, such as England before the present war and the United States, arose from the fact that state regulation had been imposed in a piecemeal fashion on a superstructure based on private enterprise, mostly on grounds of expediency or out of humanitarian considerations. As a result much of the benefits of conscious and comprehensive planning had been lost while the homage still paid to the virtue of private enterprise had become more and more unreal. The free economies, as they stood at that time, were at best the accidental outcome of an incoherent body of measures. The lack of a conscious social policy was writ large on them. In these circumstances they could hardly represent an optimum combination of state planning and private enterprise. Though economic freedom of the individual was still supposed to be their pivot, they had in practice moved a long way towards planning. A point was reached at which it would have been much more rational to start from the planning end and retain or re-introduce private initiative whenever there was a clear case for it.

An analogy from Indian economics may not be out of place here. It is well-known that before 1914 the tariff policy of India was rigidly wedded to the extreme tenets of free trade. During the war expenses at the centre went up by leaps and bounds. Authorities were anxious to tap new sources of revenue. As

import duties constituted by far the most important source of income in the central budget, duties on various goods were raised in successive stages. In all this there was no intention to afford protection to indigenous enterprise. They were purely emergency measures prompted by the exigencies of war finance. But the level of these revenue duties had risen so high that by the time the war came to an end, it was clear that in many cases they had an unmistakable protective effect, as a result of which new Indian enterprises had sprung into existence. The choice now lay between indiscriminate protection and a planned protective policy. The whole system of import duties obviously called for a thorough examination from the angle of protection, which was undertaken with the appointment of the Fiscal Commission in 1921.

4

The nineteenth century did not actively occupy itself with the interests of the community. It assumed away the most complicated social problem of all times, namely, how to harmonise conflicting economic interests of different groups. Retrospectively, this performance appears all the more strange as the conflict of interests, particularly between capital and labour, on which Marxian analysis threw a lurid light, had already begun to turn human society into an arena for a trial of class strength.

The nineteenth century derived community interests from those of the individual and left it to the latter to determine, like an absolutist monarch, what his interests were. In the background of the experience of the last hundred years it now appears indispensable to reverse the position. The interests of the individual have now to be derived from those of the community. Not from the part to the whole, but from the whole to the part, should be the appropriate motto. The thesis that collective interests are automatically safeguarded and need not be

looked after, must therefore be abandoned for good. It has to be replaced by a conscious policy based on a clear-out definition of collective interests to which those of the individual will have to adjust themselves. There is wisdom in the slogan : collective weal before private interests. Democracy, too, must, sooner or later, accept it and mould its policy accordingly, though its conception of public weal will necessarily be different from that of the land where this slogan was born.

The controversy which in its bare outline has been reproduced in the previous chapter, is not peculiarly Indian. In some form or other, it has appeared in all countries where modern industries have been developed on an extensive scale, though without doubt it has enjoyed a longer lease of life and created a wider gulf here than anywhere else. The difference between the charka and the machine school arises from the fact that they have approached the problem from two different extremes and, what is more, neither has viewed it as a whole. A clear conception of the community interest is one of our first desiderata, if a bridge is to be built between the two.

The next essential point to be remembered is that, left to themselves, individuals may pursue a policy which would be at variance with this social ideal. The prime consideration of an individual is to maximise his profits. He may act in such a way that profits would flow into his pocket but at the same time hinder the realisation of the social objective. As will be clear in a later chapter, these considerations have a very direct bearing on the question of the industrialisation of India. Guided by profit motive, an individual may introduce machinery in the wrong dose or in the wrong place or both. In all such cases the economic activities of the individual must be made subservient to the community interests. In other words, the state must plan for the realisation of the objective defined earlier in this chapter and must curb the activities of the individual whenever they run counter to the social ideal.

CHAPTER IV—POPULATION AND EMPLOYMENT

I

The most significant fact in the economic life of this country is that there is no dearth of able-bodied unemployed. Population is in many respects the crux of our problem. The charkaite is definitely right when he makes this his starting-point. We must not forget that we are thinking of industrialisation not in the eighteenth, nor in the nineteenth but in the twentieth century. It makes all the difference whether a country embarks upon industrialisation with a small but growing population as was the case with England, Germany and the United States, or with a population which is already large and is growing from year to year as is the case with India.

If the population is small, there is a relative scarcity of hands and the logical tendency would be to make machine do the work of man. Labour-saving devices in these conditions lead to an increase in the volume of production. Nevertheless, even here there is, theoretically, a point beyond which rationalisation, that is, the substitution of machine for man, does not pay. When the population is small, that point is relatively far off; when it is large, it is reached much earlier.

To take an example, in the United States there were vast tracts of uncultivated land and a relatively small number of farmers. The problem was therefore how one man could rapidly cultivate a large area. Tractor provided the solution. In our country the pressure of population has grown very considerably. There is not enough land to go round. We are therefore confronted with a less agreeable task. Not more land per head, but more men per unit of land is the issue which faces us. As a result we find it difficult to replace the country plough which is still regarded as the cheapest.

The same considerations apply, *mutatis mutandis*, also to

the industrial field. Every cotton manufacturer in this country knows that it does not usually pay to introduce automatic looms and many other labour-saving devices because labour here is cheap. Had so large a percentage of the population not been land-rooted, a very much larger number would have been available to work in factories. This would have depressed the labour market still further and labour would have become cheaper still so that the limit beyond which the replacement of human labour by machinery becomes uneconomic, would have been reached earlier.

There are, however, two considerations which set a limit below which wages cannot fall. Firstly, though the number of unemployed is large, there are relatively few skilled workers. As a result the wages of such labourers remain higher than what they would otherwise be. And, secondly, for obvious reasons wages cannot fall below the subsistence level. For otherwise the efficiency of the labourer would suffer to such an extent that the employer would stand to lose rather than gain from such a wage policy. Besides, before being reconciled to a wage level below subsistence many labourers might prefer to have recourse to the alternative profession of begging in the hope that the income from this source while involving less strain might at the same time prove sufficient to keep body and soul together.

As regards resistance to machinery, agriculture from its very nature is in a stronger position than industry. The tractor cannot drive out the country plough but the hand-loom can easily be ousted, as has largely been the case, by the power-loom. The cultivator is in physical possession of his field where the work of production must be done. He alone determines what implements will be used there. Use of modern machinery in agriculture may no doubt lower costs of production abroad and bring about a fall in agricultural prices. If the import of agricultural produce is allowed free of duty, then internal prices too will fall and to that extent the home cultivator will suffer. This is illustrated in the case of paddy whose cost of production in Burma is low

while the free import of Burma rice has prolonged a slump in the prices of paddy and rice.¹ Nevertheless, however much the cultivator may suffer, he cannot be thrown completely out of employment. The hand-loom weaver can, on the other hand, be very easily deprived of his work. A textile factory may be set up somewhere and textiles may be produced at a lower cost. The weaver would then lose his market and sooner or later be thrown out of employment.

2

How soon are we likely to reach the point at which the substitution of machine for human labour would cease to be economic? This is a delicate question, yet its significance is obvious. This can be best illustrated by an example.

If we go in for the use of maximum machinery in the cotton textile industry, we would, to take an off-hand figure, need say one lakh workers in the textile factories to produce cloth which would be enough to clothe the entire population. If we were to use no more machinery than what is now to be found in the average cotton textile factory of India, we would perhaps require ten lakhs of workers, the present number of labourers employed in some 430 factories being 5.6 lakhs. If, on the other hand, we decide to use a minimum of machinery and a maximum of human labour, if, in short, we were to return to the good old days when all the spinning was done with charka and all the weaving with the handloom, we could perhaps find employment in the cotton textile industry alone for, say, 2 to 3 crores of people. What should be our criterion for determining the number of people to be employed in this industry? Where should we, between these two extremes, draw the line?

Obviously, this question cannot be answered off-hand. A

1. Shipping difficulties with a temporary fall-off in the import of Burma rice have recently led to a sharp rise in the price of rice.

satisfactory reply would be possible only when we view the economy as a whole and plan for it in advance. The planning authority will naturally have to try to open up as many avenues of employment as possible. At a given moment, however, there will be a given number of avenues in which the population can be employed. It would be up to him to decide how many people should be employed in each one of them. If his decision is to be rational he must, as mentioned previously, be guided by two considerations: firstly, that all the employable people should be employed; and, secondly, that they should be employed in such a way that the sum-total of goods and services produced would be at a maximum. The optimum distribution of population, that is to say, the equilibrium point, would be reached when the transfer of a person from one occupation to another would no longer lead to a net addition to national wealth.

To come back to our example, it is very likely that the planning authority will find it advisable that the textiles necessary to clothe the whole population should be produced not by 1 lakh of workers nor by 2 or 3 crores but by, say, 75 lakhs. The optimum number of hands to be employed in one industry is thus derived from an optimum distribution of the whole population among various occupations. If the number of people employed in that industry were to be below that level (75 lakhs as suggested off-hand for cotton textiles), then there would be some net unemployment; if more people were to be employed, then the total wealth would fall short of the maximum.

In actual practice, however, the equilibrium point given by full and most productive employment of the entire labour force can never be attained. While the conception of national wealth is theoretically clear, it is no easy matter to measure it at a given moment and the increase and the decrease which take place from time to time. Nor is it possible in reality to fix the optimum number of hands which should be employed in any particular occupation. Mathematical accuracy is out of the question. Nevertheless, the validity of the approach cannot be

questioned. Further, the degree of deviation from the equilibrium point may be reduced step by step and in the proportion in which experience accumulates and the method of calculation including the statistical apparatus improves.

Unless we approach the problem in the way indicated above, unless we plan for employment and plan with regard to the whole economy, if, that is to say, we decide to leave it to the blind operation of economic forces, as was done in a laissez-faire economy and as is done even to-day in many countries with haphazard state intervention and sectional planning, we shall invariably find ourselves saddled with more unemployment than there should, strictly, be any need for, or, than can be justified with the technique and science and the material resources at our disposal. Blessed is the society where those in power ceaselessly endeavour to attain the equilibrium point of employment as defined above and succeed in arriving at a workable approximation to it.

3

Certain socio-economic factors have served to conceal the real magnitude of the problem of unemployment in this country. To begin with, there is no registration of the unemployed as is now prevalent in the advanced countries of the West. It is therefore not possible to form any estimate of the total number of unemployed persons. Secondly, chronic under-employment prevails on a very large scale. The majority of the cultivators do not own enough land to earn even a tolerable living, but just because they own some land, they are not considered to be unemployed, even when they have to live in a state of semi-starvation. In the distribution trade the middlemen (fariachs, beparis, paikars, retailers, etc.) are far in excess of the optimum number. The same is true practically of all our professions not excluding those of coolies and domestic servants. The result is that, though not literally unemployed, a very large number is

unable to earn what may be regarded as a subsistence level of income. If the problem of starvation has not become more serious, it is because it has for a long time been collectively shared by a large number. Thirdly, both social tradition and religious sentiment incline Indians to be charitable towards the needy and readily give alms to the beggar. Thus a large number of people who in Western countries would certainly be included among the registered unemployed and receive dole from the State, live in India on private charity. Lastly, the joint family system, which though weakened by the impact of modernism, has in its essential features still remained in tact so that unemployed members even today depend in the first instance upon the joint family for their maintenance.

If all the surplus hands were released from every occupation including agriculture and all the unemployed persons including the unemployed members of joint families were brought together, then alone would it be possible for us to grasp the issue in all its appalling gravity.

One hears of an unemployment problem both in India and in the West. There is, however, a profound difference between the two. In the West private individuals under a laissez-faire system took the initiative to exploit the resources of the country and opened up innumerable new avenues where vast numbers were absorbed. A certain number, though small when compared with that of the employed, continued to remain out of employment. How to wipe off even this remnant of unemployment and how to prevent its periodic increase owing to fluctuations in business conditions is the problem that now faces the West. It is increasingly recognised there that under laissez-faire it is practically impossible to reach the point of full employment. The debate therefore centres round the responsibility of the State and the suitability of various measures which the State can adopt to absorb them in productive work. Nevertheless, the unemployment in the West remains essentially a residual problem.

With us the problem is not residual, but primary. Laissez-faire has been a more glaring failure in India than abroad. Private individuals have made very little headway in exploiting national resources while the state has persistently maintained a non-possumus attitude. Vast possibilities for production and employment undoubtedly exist within the country. Only a fraction of them has so far been realised. The task which faces us to-day is how to exploit these resources and increase production and employment as rapidly as possible. Our problem, strictly speaking, is not one of unemployment but of employment.

4

In all text books on economics we learn that supply and demand regulate the price of a commodity. Labour too is regarded as a commodity so that its price (that is, the level of wages) is determined by the supply of labour (the number of able-bodied persons) and the demand for labour (the volume of available employment). It is further argued that the adjustment is automatic and is brought about by changes in wages. If the supply of labour is in excess of the demand, wages would fall till all the labourers are employed somewhere. Imperfect mobility of labour and the existence of non-competing groups introduce some complication into the above argument, but, on the whole, the thesis is supposed to stand so that the volume of what is called "frictional unemployment" can never assume large dimensions at least as long as wages are sufficiently elastic. Unemployment, it is argued, would normally bring its own cure. The best policy would therefore be to let things look after themselves which will be automatically set right in due course. Why should we then be haunted by the fear of persistent unemployment?

As has been pointed out in a previous chapter, even in England, the birthplace of laissez-faire, the theory of automa-

tism has failed and is being increasingly abandoned. The existence of "depressed areas" in Great Britain knocked the bottom out of the thesis that things have an inherent knack of looking after themselves. Besides, we are all aware of the serious unemployment which results from periodic fluctuations in business conditions. In view of these empirical facts the laissez-faire position became manifestly untenable.

Nor could the authorities adopt the prescription of a do-nothing attitude with regard to the problem of unemployment. Here economic practice has for several reasons marched ahead of economic theory. Firstly, in an age of democracy this problem could not, for obvious reasons, be indefinitely ignored. While economists were interminably debating over the diagnosis of this chronic disease in the body economic and were confidently prescribing incongruous remedies varying from complete nationalisation of the means of production to complete inaction, political authorities had to step in and improvise at least some half-hearted measures in order to alleviate the suffering of the unemployed if only to avert an unfavourable verdict by the country at the next election. Secondly, experience, as already mentioned, proved abundantly that the expectations of theoretical economists more often than not failed to materialise. And, thirdly, the growth of rival economic systems in which unemployment was regarded as an unmitigated evil so that the whole economy was planned in order to provide employment to the whole employable population, was a very potent factor in breaking down the self-complacency prevalent in a predominantly laissez-faire economy.

In a country like India which is still in the comparatively early stages of industrialisation, cyclical unemployment is of relatively limited importance. The crux of our problem is that population has grown rapidly while little effort has been made to create new avenues of employment. If we were to leave things to themselves in accordance with the convenient social philosophy which sanctifies the line of least resistance, population

would continue to outrun employment and production at an accelerated pace. Impoverishment and starvation would, more than ever, become our lot. Somewhere no doubt an equilibrium would be reached. There would be only this difference that such an equilibrium would be brought about not so much through a fall in wage rates as through the agencies of—Death ! Those who plead for an automatic adjustment of supply and demand would have the grim satisfaction of seeing their favourite theory vindicated to the hilt. One should, however, have thought that the equilibrium with which economics deals must needs be confined to the planet we inhabit and should not be extended to comprise the next world as well. For its business is to tell us how we can best live and not how we can best perish.

CHAPTER V WORK-CREATING AND WORK-ROBBING INDUSTRIES.

I

From the angle of employment, factory industries can be divided into two broad categories. Firstly, there are certain industries which create new wealth and therefore provide more work to people. They may be called wealth-producing or work-creating industries. And, secondly, there are some industries which do not create any new wealth at all, which simply produce on a factory basis, with the help of modern machinery, what used to be done on a cottage industry scale. Not only they do not provide work to more people, but as fewer hands are required to do the same work, a large number of men is thrown out of employment. Consequently, we might call them wealth-redistributing or work-robbing industries.

A few examples will make the meaning of this classification more clear. Before the Tatas started their iron works, iron ores lay buried in the earth. A mighty industry has grown up,

national wealth has increased and a large number of people has found employment. The Tatas are a most obvious example of working-creating industries. Similarly, if India's large resources in bauxite were to be exploited some day by an aluminium industry, it would have to be classed as work-creating.

The position of the rice mill industry is entirely different. It has added no new wealth. Paddy has for ages been converted into rice. The dhenki may be a primitive instrument, but it served the purpose. The effect of rice mills has been simply to displace the dhenki. This industry must therefore be classed as work-robbing. The oil industry which has thrown ghani-tenders out of employment, obviously belongs to the same category. These are cases where men decay, but no wealth accumulates.

The division just suggested is, of course, not to be regarded as water-tight. An industry can and very often does, belong partly to the one and partly to the other category. In fact, between the extreme cases noted above, there can be a whole series of intermediate positions.

As an illustration we can take the case of the cotton textile industry. To the extent to which it has squeezed Indian weavers out of existence, its effect has been to reduce the volume of employment. But the industry has done more than that. It has brought about a steep fall in the volume of imports from Great Britain, which, under the prevailing conditions, would not otherwise have been possible. To the extent to which it has replaced foreign by Indian goods, its effects have, so far as India is concerned, been work-creating. At the same time the increasing use of the dobby and the Jacquard loom in cotton factories exclusively hits the Indian weaver specialising in the production of artistic fabrics and is therefore work-robbing in its incidence.

Sometimes machinery while displacing labour, makes possible a better utilisation of raw materials. For example, the recovery of sugar from cane is greater in factories than is

possible through the cottage industry process. In so far as the sugar industry has displaced indigenous *gud*-makers, it may have been work-robbing, but for a double reason it has been wealth-creating : (a) it has replaced imported sugar from Java by Indian sugar, and (b) it has rendered possible the recovery of a higher percentage of sugar from canes.

All this may be readily admitted. These considerations simply show that an industry may have to be judged from several aspects before its full effects on production and employment can be ascertained. It then becomes a question of weighing advantages against disadvantages, gain against loss. The task in each case is how to retain the advantages and at the same time cut down the disadvantages to a minimum so that the social balance-sheet may be as favourable as possible. For example, there cannot be any question of throwing the Indian market open to imported sugar, but it may be necessary to sacrifice some wealth, namely, that resulting from the greater recovery of sugar in factories, in order to retain the advantages of a large number of cultivators working in the processing industry of *gud*-making. In other words, instead of employment making concessions all along the line to production, in the economic interests of the country production may very well have to make some concession to employment.

For our present purpose it is not necessary to multiply these examples and deal with the special considerations which arise in each case¹. Just now we are concerned with the broad principle underlying the classification suggested above. In a country, where population has grown enormously and where there is no scarcity of able-bodied unemployed, there cannot be the slightest doubt that a work-creating industry in our sense is to be preferred to a working-robbing one. It follows that as long as there is scope to start work-creating industries or sections of such industries, it would be a wrong and wasteful policy to

1. Some later Bulletins of V. E. R. will be devoted to particular industries, which will deal with specific considerations arising in specific cases.

float industries or develop sections of industries, which are work-robbing in their incidence.

The same thesis can be put in a different way. It is clear that, other things remaining equal, an entrepreneur would invest the available capital in the channel which would promise the highest dividend. Similarly, from the standpoint of the community one might calculate the social dividend, that is to say, the net addition to national wealth, expected from the various channels in which the available capital is invested. This capital should be so husbanded as to secure the highest social return, that is to say, the new wealth produced should be at a maximum. The various avenues could be arranged in the descending order of their profitability and money should not be invested in any avenue as long as there are unexploited avenues occupying a higher place in the list. To be more concrete, the community would most definitely be better off if the capital invested in oil mills, rice mills, certain sections of the textile industry, etc. could be pooled and utilised for developing such industries as aluminium, chemicals, machine, locomotives, motor cars, ship-building, or for hydro-electric schemes, for river training, etc.

It is interesting that Mr. R. H. Tawney, a well-known authority on the social and economic history of Europe, who, some time ago made a comparative study of the problems of contemporary China, should lay special stress on the need for a careful planning of the capital resources of that country. "When capital is as scarce as it is in China", observed Mr. Tawney, "it is of vital importance that it should not be diverted from industries whose development is an urgent national need into financial ventures which, if profitable to investors, are, from a public standpoint, at best of secondary importance, and, at worst, mischievous. What is required, in fact, is a scheme of priorities under which the undertakings whose establishment or expansion is of most general moment will have the first call on the capital available for industry. The execution of such a policy would involve a relationship between the State and banking sufficiently

close to enable the former to exercise control over the proceedings of the latter, and to guide investment into the employments, whether the most immediately remunerative or not, in which its utility to China will in the long run be greatest."¹

Such a "scheme of priorities" is no less necessary in this country. If this "scheme" were rationally drawn up, it would, in our opinion, be inevitably found that the centre of gravity of industrialism in India would have to be shifted to a radically different point where the proportion of work-creating industries would be many times greater.

2

Even a superficial survey of the existing industries in India will reveal the preponderance of work-robbing as against work-creating industries. Several factors have been responsible for this. Firstly, some of the industries which would have brought high dividends have been monopolised by foreign capital, thus leaving to Indian enterprise the relatively restricted field where industries earn lower dividends and are at the same time more work-robbing than work-creating in their incidence. Secondly, the absence of key industries has been a severe handicap for the development of many of those industries which would have increased the volume of employment and production. Thirdly, the belated adoption of a policy of discriminating protection and its halting, if not grudging, application in practice ruled out the possibility of establishing many key and other work-creating industries, the more so as the need for protection for such industries in the initial stages became all the more pronounced as a result of the ever-growing competition from the advanced industrial countries. Fourthly, the development of some of the more important industries of the definitely work-creating type called for bolder initiative and larger capital outlay than Indian industrialists

1. "A Memorandum on Agriculture and Industry in China", by R. H. Tawney (published by the Institute of Pacific Relations, Honolulu, 1981). Pp. 111-112.

were in general able or willing to supply. Our industrialists as a class with one or two outstanding exceptions, have been out for ready money profits. They have not been prepared to embark upon enterprises which call for heavy capital investment and preferred to start work-robbing industries which often provide the line of least resistance in the sense that they usually hold out, at least in the initial stages when there is no danger of overproduction, sure prospects of handsome profit to the individual entrepreneur, though as a result the community should suffer.

This preponderance of work-robbing industries is mainly responsible for the fact that industrialisation has thrown the economic life of rural India so completely out of gear. The incidence of work-robbing industries has been the more deplorable in our country because they have very often failed to create those subsidiary industries which, as the orthodox economic theory points out, absorb at least a part of the displaced labour. The most important of these subsidiary industries is, of course, the machinery which is needed to set up a factory. Had the machinery been produced in this country, a new industry would have grown up and at least some people would have found employment there. But without exception our industries have so far depended on imported machinery and there are no signs that in this respect things will improve in near future.

It should be clear from what has been said above that we are by no means against machine industry as such. Indeed we are emphatically of the opinion that without industrial development in many spheres India will not be able to support her present population, not to speak of raising the general standard of living. Our contention is that industrialization has so far proceeded without any plan and as a result the community interests have been neglected far too long. We have started industrialisation at the wrong end. We have set up modern factories where the cottage industry

has not yet lost its *raison d'être*, but we have left untouched the field where modern factories would have the greatest economic justification.

3

On the face of it it may appear anachronistic that in the twentieth century when machinery can obviously do a work more quickly and efficiently, when one might, not without reason, regard an antiquarian museum as the proper place for the dhenki and the ghani, the charka and the handloom, our analysis should lead to the startling and disburbing conclusion that in this country we are not yet in a position to dispense with them. Must we then forfeit all the advantages which the development of science and technique has brought to mankind? Must drudgery be our lot?

The reply to these doubts has been implied in our analysis. We are not for drudgery. The truth is that placed as we are to-day, the alternative would be starvation. Can there be any doubt as to the choice we should make?

Far from justifying drudgery we are, in fact, pointing out what, in our view, would be the only way of ending it. If we really want to move to a higher standard of living we must begin by increasing national income, that is, by creating more wealth. The standard of living may be raised only to the extent to which this wealth accumulates. The natural corollary to this is that more productive avenues of employment must be opened up first and in the proportion in which this is done it would be possible for us to discard the less efficient and more arduous methods of production.

Those who are still unconvinced may consider the following example. An individual who earns his livelihood, say, as a clerk and has an income of thirty to forty rupees a month, may get disgusted with his lot and may not without reason regard it as an irony of fate that in an age in which

science and technique can do wonders in the production of wealth, he should go about ill-fed and ill-clad and deprive himself of all the pleasures of life. Yet however much he may yearn for a better life, if he is not completely devoid of commonsense, he would not all on a sudden decide to rent a flat in a fashionable quarter and live in European style. For he should know that he must move step by step and that a rise in income is the inevitable condition to a rise in the standard of living. Otherwise he would be hopelessly involved in debt and would soon find himself on the street. In his desire to raise his standard of living abruptly, he would end by lowering it to the starvation point.

All this will be obvious even to the most confirmed sceptic. Now, what is true of an individual is no less true of a nation, though the logical sequence in the latter case is usually overlooked. We have seen the penalty which an individual will have to pay if he puts the cart before the horse and raises the standard of living before raising income. The penalty which a community pays for an error of this type, is no less heavy, though it is generally not visible to the ordinary man. This is due to the fact that when an individual pursues a wrong policy, he directly and immediately pays for his own folly, but when a community is guilty of such rashness, one individual may have to pay for the mistake of another. Because of this element of vicariousness social losses only too frequently escape public notice.

In economics, as in other spheres of life, first things must come first. Those who would substitute machine for the more arduous kind of labour, often overlook the fact that this substitution, if carried beyond a certain point, would invariably meet with its own Nemesis. It would lead in other spheres to the reverse process of replacing machine by human labour. Thus while we plead for more machine and more horse-power, we daily see before our very eyes how bullock carts are being replaced by human carts for

carrying goods, and horse carriages by rickshaws for carrying people. We employ two or more servants to do the work of one; three, four or more coolies to carry the luggage which would be handled by one porter in Europe; we have several times more middlemen in wholesale and retail trade than would be strictly necessary; we have an appalling array of beggars around us. How to get these people engaged in work which would be socially productive, is a gigantic problem. And if we plan rationally so as to employ productively every single individual so that the national income may be at its maximum, we shall find that, with our present population, we cannot go far in the mechanisation of most of our industries and that the time has not yet come when we can dispense with the dhenki, the ghani, etc. without incurring social loss.

4

We all know from our experience the great strain which is frequently imposed on the head of a large joint family, particularly if it is saddled with unemployed members. In such circumstances it would be a relief to the head of the family if the idle members were to earn and contribute to the family fund a small sum, even if this were substantially less than the amount needed for their own maintenance. Such occupation is welcomed by a sensible guardian on the additional ground that nothing is more deleterious to the character of an individual than a long and continuous lack of occupation.

Economically, the nation is in some fundamental respects very much like a huge joint family. Where the nation has grown enormously in size, it becomes a gigantic task even to meet the barest needs of the entire population. That task is certainly not simplified when the number of idle hands multiply. If those who have been placed, either by choice or by accident, in charge of the economic welfare of a nation, were really anxious to fulfil

their function with a due sense of responsibility, it is certain that they would, first and foremost, try to cut down the number of unemployed adults to a minimum. In doing this they may very well reach a point where they will have to rest content even with a very small per capita contribution to the national pool from a large number of people simply because these people would otherwise remain absolutely without work and consume a part of the national wealth without adding anything to it.

To put the same thing in more concrete terms : During the last six or seven decades population in India has increased rapidly. Since 1871 it has practically doubled. Production and employment have not, however, kept pace with this remarkable growth. If all the people were to be employed to-day, the per capita return would necessarily be very much lower than what it would have been in the seventies and productivity at the margin, that is to say, of the least productive group of people, would be almost near the zero point. In considering the possibilities of a particular cottage industry our first task is to find out whether the average income of individuals employed in that line is above that marginal productivity. The volume of existing employment is so limited and the number of unemployed and half-employed, either visible or disguised, is so large that there is a strong presumption that the return from even relatively unimportant cottage industries would be higher than what would be earned by the marginal worker or group of workers under the condition of full employment.

The effects of work-robbing industries have been dealt with so far. It has been argued that the displacement of labour resulting from the establishment of such industries is not to the interest of the country as a whole. For, the chances that the entire labour force thus displaced will be absorbed in other indus-

tries are, under the conditions prevailing at present, practically nil so that industrialisation in such cases instead of leading us towards fuller employment, actually leads us away from it.

Even when an industry belongs to the work-creating category, there would remain the vital question of the volume of employment it will provide. In view of the vast size of India's population, it is clear that, other things remaining equal, the greater the volume of this employment, the better for the country. This brings us to the question of the optimum proportion of human labour to the machinery to be used and indirectly also to the question of the size and location of the new factories to be established.

Sometimes there are within an industry, processes which cannot be carried out at all except with the help of machinery or for which machinery is very much more efficient than the human hand. To forego machinery in such cases would involve large sacrifices of wealth, actual or potential. At the same time there are also processes which can be carried out, without any appreciable difference as to the quality of the article, either with machinery in factory houses or by workers operating singly or in small groups in cottages or small workshops, particularly when these have cheap power at their disposal. While from the point of view of the total wealth produced it is in this latter case immaterial which method is adopted, from the angle of employment it would make a good deal of difference whether these processes are conducted through machinery or through manual labour. Obviously if a work-creating industry is to provide employment to the largest number of workers without unduly reducing national wealth, it is essential that such productive processes should as far as possible be left to small scale workers. Machinery when it is indispensable but human labour as far as possible, would be not an inappropriate motto for the present generation which faces industrialisation with a huge population.

To take a few concrete examples, a tanning industry can

tan leather on a large scale at lower costs and under less disagreeable conditions than would be possible for a village artisan. Moreover, machine-tanned leather is usually very much superior in quality. Once the leather is tanned, the remaining processes can, however, be very well done in cottages where a large number of finished leather goods can be produced. To convert iron ores into pig iron and steel, a modern industry is necessary. But certain finished goods e.g. frying pans, can easily be produced by cottage workers. Once bauxite is turned into aluminium in a modern industry, household utensils could be produced by individuals working on a small scale. There is also point in the thesis that cotton spinning should be done in textile factories while the weaving can be left to the handloom worker. Similarly, there is something to be said in favour of boiling paddy in boilers used in rice mills, leaving the process of husking to be done with the dhenki.

Many more illustrations could be added, but those mentioned are enough to make the principle clear. If such a policy is pursued in practice, industrial development will lead to the creation of a large number of entirely new small scale industries and one modern factory will be able to feed with materials a large number of workers operating singly or in small groups. As a result a new type of small workshop industries will grow up which might be regarded as the counterpart of cottage industries in a machine age.

In many cases the growth of small scale industries will depend on the supply of cheap power which almost necessarily means electricity. Economy in power has long been the most important consideration in favour of the centralisation of production processes in a factory. As long as coal was the main or only source of power, decentralisation of production could not for obvious reasons be carried far. Thanks to electricity which can now take the place of steam, this argument has lost much of its force. If electricity were generated on a large scale and supplied to individuals at a price as near its cost as

possible, production could in many cases be as well carried on in small workshops. Efficiency of production could thus be combined with practically all the advantages of a cottage industry so that small scale producers would have a much better chance to survive.

In this connection it is interesting to refer to Japan, the more so because Indian conditions resemble much more closely those of Japan than conditions in the industrialised countries of the West. Partly owing to the inexorable force of circumstances, partly as a deliberate policy Japan has evolved an industrial organisation in which small workshops play a very important part.

According to an estimate prepared by a Japanese economist,¹ industrial establishments in Japan with five or more workers numbered 80,311 in 1934, of which no less than 68,738 (85.6 per cent) employed less than 30 workers each and 8,554 (10.7 per cent) employed from 30 to 99 workers each. These figures clearly show that in spite of her rapid industrialisation during the last few decades Japan has remained overwhelmingly a country of small and middle-sized industries.

Another well-known Japanese economist has estimated that small factories and workshops employing less than one hundred workers account for 65 per cent of Japan's total exports. Of a total working population of some six millions, about 75 per cent are employed in establishments with less than a hundred workers, while no less than half of the total are employed in innumerable workshops with five or less employees which do not even come under the Japanese factory legislation.

Of the small-scale industries the most important are weaving of cotton, rayon and woollen goods, manufacture of electric lights, bicycles, enamelled ironware, rubber goods, preparing of food, wood-working, printing, book-binding and cement.

1. Vide "Aufbau der Industriewirtschaft und technischer Fortschritt in Japan" by Prof. Saburo Shiomi, published in a Special Number of *Weltwirtschaftliches Archiv*, Kiel (July, 1937) on the Industrialisation of Japan.

The most interesting feature of these small-scale industries is that the Japanese themselves regard them not as the modest beginnings destined to lead some day to big establishments. On the contrary, these "units of industry which, though small in size, are fully matured and not small units of a potentially large-scale industry". These small-scale units are, it is pointed out, an indigenous growth resulting from the social and economic conditions prevailing in Japan, namely, over-population and its inevitable corollary, poverty.¹

Over-population and poverty are certainly not less prominent in India than in Japan, so that it would be natural to expect that small factories and workshops should be the rule also in this country. In fact, the size of average enterprise in India is without doubt small. In many lines it would have been smaller still but for two factors, namely, a natural tendency to follow closely in the footsteps of Great Britain and the necessity, under a regime where trade is comparatively free, to meet foreign competition by keeping costs as low as possible, which frequently calls for a more intensive use of machinery than would otherwise be the case.

It is significant that Mr. Tawney to whom reference has already been made earlier in this chapter, should make the following observation with regard to China: "It is a mistake to acquiesce in the common assumption that, because mass production is the condition of efficiency in certain important branches of enterprise, it is therefore equally desirable in all, and that to accelerate its introduction is the only possible method of promoting economic progress. That blunder was made in many parts of Europe, and is now, in some of them, being partially corrected. It should be avoided in China."²

1. Vide "Japan over Asia" 1938 by William Henry Chamberlain, p. 177-178.

2. A Memorandum on China, pp. 116. Also "Die Industrialisierung Chinas unter Berücksichtigung der ländlichen Industrien" by Prof. Hsien-Ding Fong, Ph. D., published in a Special Number of *Weltwirtschaftliches Archiv* (March 1937) on the Industrialisation of China. (See particularly pp. 237-250).

This warning might as well be addressed to India. Those champions of industrialisation to whom industrial development is more or less synonymous with the growth of large-scale establishments of the Western pattern with the utmost use of the most modern machinery, will do well to ponder over the considerations which have been put forward in this section.

6

The principle enunciated above should give us some clue also with regard to the location of an industry, even when it is of the work-creating type.

It is well to remember that the per capita distribution of land in this country is very small and that even with all conceivable improvements in agriculture, it would, in the vast majority of cases, be impossible for the cultivator to make both ends meet with the income derived from land. Some have therefore advocated the establishment of new industries and the transfer of population on a mass scale from the countryside to the new industrial areas. There are, however, two considerations which have to be borne in mind.

Firstly, the country population is so rooted in land that most of them are extremely reluctant to migrate permanently to a new place. The possession of a few bighas of land often complicates the matter. For, the fact that a villager happens to have inherited some land reinforces his tie with his native village, though the area owned is so small that the food crops grown can meet his demand only for a few months in the year.

Secondly, the growth of new industries may absorb a part of the rural population, but, judged from the past experience of industrial development in India and abroad, it is almost certain that no substantial relief of the present pressure on land can be expected from this quarter. The problem is a quantitative one.

One must be a bold optimist to argue that the pace of future industrialisation would be enough to absorb the whole of the net increase of our population in new industrial establishments, not to speak of bringing about a diminution in the number of people now depending on agriculture.

In these circumstances it appears to us inevitable that for a long time to come the most typical and the most pressing problem confronting India's vast sections of rural population would continue to remain one of eking out a palpably inadequate income from land in order to keep body and soul together.

In this background it becomes a question of great national importance to locate new industries as far as possible in those areas which stand badly in need of new sources of income. The industry might then lead to the creation of a large number of small workshops where the unemployed or under-employed people of the surrounding area would find work. Even if production were to be centralised in a single factory, it would be an obvious national advantage to locate the industry in a populous area with a heavy pressure on land. A large number of people, who are in need of work but are reluctant to move away from the village, would be able to work in the factory. Besides, there is no reason why a part of the cultivating classes, whose agricultural operations provide employment only during a few months of the year, should not be able to work part-time in such an industry.

The industrial organisation of Württemberg in South-West Germany might serve as an illustration. Württemberg has a large number of industries. In the diversification of industrial production it is ahead of most other parts of Germany. Some of its industries are world-famous and before the war used to cater on a large scale for overseas countries in addition to the home market. One characteristic feature of these industries is that they are, in most cases, located in the countryside or in what were once villages but now have grown, as a result of these industries, into small country towns. The setting is rural

and the natural scenery has been kept very largely intact. Their cleanliness and the absence of smoke and squalor present a refreshing contrast to what one generally comes across in industrial areas. A striking peculiarity of these industries is that in many cases the workers are drawn from the neighbouring villages, who frequently live in their country homes, work something like five to six hours in the factories and devote the rest of the time to their agricultural operations including poultry and animal husbandry. The factories sometimes work two shifts so that the village labourer may not have to work long hours. This peculiar organisation explains why Württemberg came through the last great depression relatively unscathed. The people of this province pride themselves on having evolved a crisis-proof economy.¹

The advantages of such a system are obvious. It does not create unhealthy slums, nor does it deprive the worker of his family surroundings in order to turn him into a proletarian. The working hours are reasonable while the remuneration received by the worker is substantial. That the majority of the workers have some subsidiary occupation usually connected with land, helps to create a feeling of independence and self-reliance and at the same time serves as a healthy diversion from the dull monotony of factory work. To earn one's livelihood by work on a small plot of land involves great hardship and at times is a well-nigh impossible task. But when this work becomes subsidiary to another occupation, it not only loses much of its sting but may often become a positive source of joy. Thus if the balance struck between agriculture and industry in this part of Germany is economically sound, it also conduces to the physical and mental health of the individual.

Such a system would be eminently suited to Indian conditions. It would remove some of the major objections of the

1. The above description relates to conditions which the writer found during an extensive tour in that part of Germany in 1935.

charka school to the development of modern industries in India. It would also go a long way in solving the vexed problem of over-population in rural areas and of excessive pressure on soil, though this would be the outcome not so much of a large scale migration of rural population into industrial centres, as envisaged by the machine school, as of a migration of industries to the country-side.

For India there is another weighty argument against excessive centralisation of production in a limited number of centres, particularly with regard to industries producing articles of general use. In a vast country like India the problem of distributing finished goods cannot be ignored. The smaller the number of producing centres, the more expensive becomes the process of distribution. If, instead of a few huge establishments, a large number of middle-sized factories were set up in carefully chosen centres in the country-side, so that goods might be produced as near the centres of consumption as possible, a considerable saving could easily be effected.

If the economic development of India were to be planned with an eye to the interests of the country as a whole, we feel sure that it will have to proceed more or less along the lines which have been broadly indicated here. Of late there has been a tendency in certain parts of India to set up factories either in the outskirts of bigger towns or several miles away from them. This in itself is a welcome sign.

7

The question of industrial development in this country has so long been debated as if the choice lay between industrialisation and no-industrialisation. If the attitude of the economic no-changers has been illogical and at times even absurd, the dynamic school has unfortunately remained content with an advocacy of change without taking care to indicate sufficiently the nature and direction of the change that is needed.

Thanks to an unreal controversy which engaged public attention in the past, we have so far lost sight of the real issues which confront us, namely, where industrialisation is in place and where it should at present be judged as out of order. Even when industrialisation is justified, there would still remain the twin issues, namely, what should be the actual size of the industry and where should the new factories be located.

An effort has been made in the last two sections to indicate the broad considerations which should govern the size and location of industries whenever new industries of the work-creating type are established. If it is agreed that unemployment is an evil and should be eliminated as far as possible, then with the present size of our population it is difficult to find an alternative to the policy just outlined.

CHAPTER VI—CLAIMS OF DIFFERENT IDEOLOGIES

RECONSIDERED.

I.

It must be admitted that the programme of industrialisation as advocated by the machine school would include both work-creating and work-robbing industries. Further, owing to the stress usually laid on the necessity of developing such key industries as iron and steel, machinery, locomotives, motor cars, coal, aluminium, aeroplanes, ship-building, electrification, heavy chemicals etc., the programme of this school would invariably reveal an overwhelming preponderance of work-creating as against work-robbing industries.

It is well to remember in this connection that the economic development of the country-side is in many respects inseparably linked up with the growth of new towns, whereas towns can only grow as a result of the development of new industries. This has been demonstrated in all the industrialised countries

of the West. All the bigger towns which grew up like mushrooms in the nineteenth-century Europe were the result of the establishment of some new industry. A factory draws together a large number of people, communication improves, arrangement has to be made for housing, lighting, water supply and other public utilities, while the need to feed the town population serves as a stimulus to agriculture and renders possible a much greater diversification of production in this sphere as a result of the increased demand for such commodities as vegetables and fruits, milk and dairy products, poultry and eggs, etc.

When a large number of urban-centres grows up, the effective distance of a village from the nearest town diminishes with the result that the village benefits in several ways. The improved roads penetrate into the village, with better communication the hygienic and sanitary conditions of village life show an improvement, the exchange of goods between the country and the town is stimulated and, last but not least, the villager imbibes something of the modern spirit of progress.

The strength of the machine school lies in its dynamic approach. If the problem of poverty is to be solved, wealth must be increased, and if wealth is to be increased, the resources must be better utilised. In many cases the most productive utilisation of resources would call for the use of machinery. When all this is considered, it is clear that a phase of rapid industrialisation, even if indiscriminate, will leave a considerable balance of net social gain. It will render possible a much higher standard of living for large sections of the community. This much must, in fairness, be conceded to the machine school.

There is, however, no reason why industrialisation should proceed indiscriminately. The machinite overlooks that being late-comers in this field, we can and should draw upon the experience of other countries and thereby keep the dislocation incidental to the development of modern industries at as low a level as possible.

Various attempts have been made in India to measure the per capita income. Estimates, however, differ widely. Statisticians have debated the accuracy of the figures suggested and have recommended the adoption of more refined methods of calculation. Nevertheless, even the least unfavourable estimate throws into bold relief the fact that the income of the average Indian is incredibly low. There is unquestionable point in the thesis that if the whole wealth of the country were pooled and distributed in strict accordance with the tenets of socialism, we should to-day distribute not wealth but poverty.

In these conditions there can be but one rational objective before the country, namely, to increase the total wealth as rapidly as possible with a view to raising progressively the standard of living of the individual.

It is common knowledge that up till now both official bodies and private individuals have conspicuously failed in opening up new avenues of employment for the people with the result that the gulf between the present volume of production and employment on the one hand and the economic potentialities as indicated by the available material resources and the extent of the market on the other, is wider in India than anywhere else in the world. An economic programme worth its name, must be accompanied by a relentless search to open up new possibilities of productive employment. To the extent to which success is achieved in this regard, the workers from the least productive occupation may be switched over to more productive ones. In other words, the margin of production can and should be raised by successive stages to higher points so that the outturn per head of even the least productive group of workers may be progressively increased.

The income derived from the charka and the dhenki, the ghani and the handloom is admittedly low, but even then it may

very well be higher than the income of large sections of the masses. When the choice lies so often between employment and unemployment, when, that is to say, the productivity at the margin, under condition of full employment, would most definitely be in the neighbourhood of zero, there is every reason not to abolish straight away the occupations just mentioned. If the programme of economic development were well-planned, it would almost inevitably be found that it would, to begin with, not pay to do away with the struggling cottage industries. Thus we come to the core of truth in the thesis of the charka school : other things remaining equal, no step should be taken which would throw people out of employment, even when the income derived therefrom is extremely low.

Nevertheless, it is equally clear that the sooner more profitable occupations are made available as a result of the growth of work-creating industries, the better would it be for the country as a whole. The thesis of the charkaite is relevant to the initial stages of industrial development, but he tends to put forward his so-called "constructive programme" as valid for all times to come. His anxiety to provide bread to the masses is no doubt laudable, but he overlooks the supreme need of moving on to a higher standard of living. In his eagerness to avert or alleviate suffering he insists on remedies which would check any effective increase of national wealth. His programme boils down to a plea to uphold a state of things which is definitely inadequate for our age. In his humanitarian zeal he often devotes himself heart and soul to a policy which might save the masses from starvation, but would at the same time keep them for ever perilously near the subsistence level. If accepted in toto, the programme of the charka school would end by perpetuating poverty for which there may be biblical but certainly no economic justification.

If we were constrained to choose between the programme of the machine school and that of the charka school, if, that is to say, these theses were really indivisible, there cannot, to our mind, be the slightest doubt that we would be better off were we to

go in for the dynamic programme of the former as against the static one of the latter.

The unplanned industrial development in the West during last century was attended with dislocation and suffering on a wide scale, but, on the whole, it resulted in an unmistakable rise in the average standard of living even in an age of a rapid growth of population. In view of the fact that India's population is already large and the per capita income incredibly low, wholesale industrialisation would perhaps lead to a rise in the average standard of living here at a much lower pace than it did in nineteenth century Europe. In addition the race between the growth of population and the increase in wealth will continue. Nevertheless, industrialisation, if sufficiently rapid, will, it may be safely assumed, arrest and at a fairly early stage reverse, the process of progressive impoverishment of the average individual.

3

A new and growing school which usually takes its cue from Soviet Russia, argues that what we need to-day is, above all, to produce more wealth and distribute it more equitably. Greater production and better distribution, this should be our motto. As a definition of our objective this may be readily accepted. As Max Weber once said, in the twentieth century we have all become socialists. This is best reflected in the general readiness to accept the socialist's definition of our economic goal. An "ism" is, however, not a plan. The socialist has so far only imperfectly enlightened us as to the method and the stages by which he would attain the objective. His reiteration of the social goal, usually accompanied by an irrelevant display of bellicose spirit, continues even after the battle has been won and the need for such reiteration has ceased to exist. The problem before us to-day is no longer one of determining what should be our objective, but of discovering the best means of attaining an objective which is

already accepted by the majority. The issues of the twentieth century are different from those of the mid-Victorian age. The social agenda has changed. But the socialist continues to argue as before with the result that much of his zeal and ardour is being used up to no fruitful purpose.

CHAPTER VII—CONCLUSION

Our aim should be to raise the standard of living of the individual from the bottom up. This can be secured only by stages. At every stage there must be full employment and as high a production of wealth as possible. For this laissez-faire will not do. The state must plan.

A rational economic plan includes three things. It must clearly keep in view the ultimate goal, it must know the starting-point and it must at the same time show the stages leading to the goal. The prevailing ideologies have taken for granted the need for planning, but they have failed to consider the three aspects together. The socialist rests content with a pious declaration of the goal. He begins where one should end. The charkaite, in spite of his protestation to the contrary, plans for the maintenance of the status quo and sets as his ideal a subsistence level of income. He mistakes the starting-point for the goal and ends where one should begin. The machinite has a better grasp of the goal, but he does not realise the full implications of the starting-point nor does he show the stages by which we should reach the objective. He treats as a road what can be but a long series of steps. He plans, but only for planless industrialisation.

We have tried to show what in our view would be the rational approach to our economic problem. Unless we first agree on fundamentals, we shall never be able to evolve a suitable plan and without such a plan we shall, in spite of all good intentions, continue to fritter away our energies in fruitless discussions and aimless efforts.