POLITICAL ECONOMY OF PROFESSOR D. R. GADGIL

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BY

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I first came to know Professor Gadgil when I was an undergraduate student. I was deeply impressed by his lectures. Later, after completing my college education, I joined the Gokhale Institute of Politics and Economics and there, I got an opportunity to work under his guidance. Since then I have been trying to study his thought. In a sense, therefore, the present work is the fulfilment of my longstanding desire and efforts.

It was, however, only under the inspiration of Dr. A. S. Nadkarni, that I started studying Professor Gadgil's thought systematically. Dr. Nadkarni himself has worked under the guidance of Professor Gadgil and, therefore, he was keenly interested in my work. His personal interest in Professor Gadgil's thought and his vast knowledge about economic theory helped me. I wish to keep on record my sincere gratitude towards him.

I take this opportunity to express my sincere gratitude towards Professor Kasat; he has helped me to get proper perspectives.

The manuscript prepared by me was not neat and tidy. I left it to the kindness and efficiency of Shri V.N. Inamdar to read it and type it. He has done his job exceedingly well. I cannot forget his debt.

Poona:
July 1976.

V. D. Deshpande
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CHAPTER I

INTRODUCTION

In his presidential address to the 24th Session of the All-India Economic Conference in 1940, Professor D.R. Gadgil (DRG) quoted approvingly Mr. Shove: "The economist who knows his business relies in the main on disciplined and informed common sense; the more he knows about men and their ways, the surer will be his touch in making the necessary judgments."

The statement is an apt description of Prof. Gadgil himself. After obtaining deep understanding of economic theory at Cambridge, he spent practically the whole of his life getting close to reality. His thought and activities have certain features which distinguish him from many of his contemporaries. Like many others he was convinced at an early age that left to the operation of a free market economy, masses in India may never have hopes to get rid of the poverty to which they have been subjected for generations. He seems to have formed this conviction quite early in his student age when he was at Cambridge. His thesis on Industrial Evolution of India, which he submitted for M.Litt. degree when he was only 22 years old, gave him, this insight. Rejection of laissez faire was not rare in those days; many Indian thinkers had by that time discovered the disastrous
impact of the laissez faire on the Indian economy. DRC, however, stands distinguished from these in two respects. First he concretized the impact of laissez faire in important sectors of the Indian economy; apart from the merits of these empirical studies, his originality lies in taking the analysis further from merely studying the consequences of free international trade on Indian economy, to the analysis of free market mechanism within the Indian economy in the field of different industries. Secondly, as a result of these studies, he developed his ideas about the regulation of economy which bear distinctive marks. He did not conclude merely with a plea for a general protection to Indian industries but suggested, with concrete illustrations, a planned regulation of economy for a smooth transition from a backward to a modern stage. Regulated or controlled economy did not connote to him an economy where nationalisation and central planning is the rule. He preferred social to state action even in important fields; primarily regulation should be initiated by social organisations and the role of the State should be mainly supplementary. His emphasis on the development of cooperative organisations, decentralization of decision-making and planning process and on wide dispersal of economic activities amply bears this out. His preference for regulation to nationalization appears remarkable in the context of the fact that socialists, in India as well as abroad, took considerable time to realize this. Even in matters like nationalization of banks, DRC was not very keen; he was of the opinion that the purpose could be served by more effective control. Again he gave priority
to nationalisation—rather cooperativisation—of merchandising and processing agencies connected with agricultural produce, over even to nationalisation of road transport.

Cooperative organizations in various fields occupied a unique position in DRC's system. Many of his contemporaries who endorsed his general line of thinking were reticent on this aspect. His preference for 'cooperative commonwealth' was the outcome of his desire to avoid the evils of both State capitalism and private economy. It alone could lead to socialism as he conceived it. If we rely on State entirely, it brings in centralization which implies authoritarianism and bureaucratisation which ultimately lead to non-democratic practices and attitudes. On the other hand, according to DRC, "Cooperation by insisting on the actual operation as far as possible in the economic sphere with the local primary, small-scale scattered units reinforces the federal political ideology in the strongest possible terms. It thus not only seeks to establish economic democracy but is also an essential factor in the working of political democracy". Because of this conviction DRC took pains to study the working of various cooperative organizations and thought over the ways and means of generating the corrective process. His predisposition towards empirical studies brought originality in the formulation of his philosophy of cooperation suitable to Indian context and kept him alert towards the possible chances of divergence between principles and practice. In this field he proved a man of action and took initiative in establishing and promoting cooperatives in different fields.
His interest in decentralization is a logical development of his interest in cooperation. His achievements in this field are equally significant. He was a pioneer in the formulation of district development plans. His plan for Wardha district attracted attention of the Planning Commission which made a significant commitment for its implementation. Apart from the academic aspect of the plan, the methodology he evolved and the participation of local organizations and people bear ample witness to his capacity to conceive original ideas and to inspire people to follow a new way of life. He organised workshop meetings of elected members of district councils and induced them to undertake the work of planning on scientific basis. Importance of all this can hardly be exaggerated. Regional planning was no longer a matter of pure academic discussion; it was an urgent necessity for him. Again, when he became the Deputy Chairman of the Planning Commission, one of the important objectives set by himself was to initiate the planning process at the State level. His efforts in this regard marked the departure from the earlier plan-making process in the nation.

His long active career culminated in his appointment as the Deputy Chairman of the Planning Commission in 1967 at the age of 66 years. This was not a mere reward for his long service to the nation; it was a challenge to him. He accepted it at an age, which he himself did not approve as a proper age for this high position. He could have excused himself by referring to his own public statement that the chief of the Planning
Commission must not be over 55 years of age. He accepted the position at a very critical time. There was already a talk of taking a holiday which, as many feared, could have turned into a farewell to planning. People had lost faith in planning and there was no sign of the Fourth Five Year Plan following immediately the completion of the Third Plan. It was a challenge also in another sense. DRG was one of the most severe critics of the earlier Plans. His articles on planning in India perhaps constitute his best writings. His criticism was very thorough and constructive. Now he was asked to come forward and formulate a plan free from the deficiencies pointed out by him from time to time. How could he withdraw in the face of this challenge on a simple ground that he is long past 55 years of age?

DRG steered through the difficulties, produced the Fourth Plan and set the planning process in motion. But it was not just another plan; it bore distinctive features both in respect of the contents and procedure.

DRG's demise almost coincided with his resignation. This was a great loss to the academic world, particularly because he was expected to make a significant—perhaps the most significant—contribution to the understanding of planning problems, after being in the office at a crucial period of time. A man of his calibre must have noted important factors and developments in the light of which he would have revised and modified old ideas and formulated a few new ones. In fact he had already indicated that he would spend a few more years in writing about economic
planning. This could have been the most valuable gift to the nation.

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Prof. Gadgil's voluminous writings cover all aspects of development such as agriculture, industry, cooperation, education, administration, housing and slums, linguistic and boundary disputes, transport, human rights, and so on. His writings usually have an empirical basis and therefore they are of special importance and use for understanding a particular problem. To cover his entire writings in a thesis is a task which is enormously difficult. Apart from this, such an effort would result in the diversion of attention from the problems which he himself regarded as important problems faced by India and other developing countries. It was therefore decided to confine our study to certain fields only.

The choice naturally fell on those subjects which are of primary importance from the point of view of development planning. The most important problems are those which relate to agricultural development, industrial expansion and cooperative movement. Each of these has several aspects; while DRC touched all the aspects of each of these, he singled out a few ones for deeper analysis. The selection appears to have been based not only on the relative importance but also upon his judgement that they were relatively neglected by the planners and others. He, therefore, must have thought it necessary to draw attention to
these. In the present work, therefore, we have concentrated mainly on these aspects of the problems. The entire chapter scheme, it will be seen, has been designed from this point of view.

In agriculture DRO seems to have paid more attention to planning organization and to the problems of small and marginal farmers. While recognizing the importance of land reforms in general, he emphasizes that in the context of a predominantly large number of small and marginal farmers, the real problem is how to make their agricultural activity economically viable; "increasing the unit of management of land" is, according to him, the major problem. Next to it is the problem of organizing the planning process. Here again he draws attention to the need for initiating process of planning from below and makes important suggestions for this purpose. In both these regards, one is impressed by DRO's concern for the small and the down-trodden. Development, he insists, must be oriented towards the welfare of the weak. But he does not want the weak to be just a recipient of the benefits doled out to him; he wants him to participate in planning and development process. The first two chapters are thus devoted to these problems.

Development of agriculture i.e. increasing production at the aggregate level and increasing the capacity of small farmers, is at the basis of the entire economic development. Much depends upon how agricultural industry provides marketable surplus for development of industrial and other sectors. DRO pays attention
to this aspect. A smooth and increasing supply of marketable surplus is essential and therefore planners must ensure that an adequate surplus emerges. In this context, one constant theme with him is 'growth with stability'. Stability, of course, did not mean status quo. A staunch advocate of an egalitarian order, DRG was persistent in his demand for elimination of inequalities of all kinds. This insistence together with insistence on increasing production of all kinds of commodities was bound to change radically the existing socio-economic order. Stability here primarily meant price-stability. This was essential for successful implementation of plans. For ensuring smooth supply of marketable surplus, DRG did not advocate, at least in the initial stages, coercive measures. Instead he wanted government to operate in the market in a manner that would safeguard the interests of both consumer and producer. His thought in this respect needs to be reviewed in the context of problems faced by developing economies.

As regards industrial development, the most important problem visualised by DRG is how to activise the rural economy. This is quite natural because whatever industrial development that had occurred in the past was concentrated at a few metropolitan centres. In the context of the situation created by this development, rural industrialisation, which DRG considered as the ultimate goal of planning, has relevance for the entire Third World. Here, in a separate chapter, we discuss the problems of dispersal, scale, appropriate technology and
regional development and comment on DRG's suggestions in respect of each of these.

Planning for the development of basic industries is also supposed to have the same goal viz. development of rural industries. Problems arising out of this consideration are again unique in the context of development planning in backward countries. We deal with DRG's views in this field in the chapter following the one devoted to rural industrialization.

More crucial problem according to DRG however is the formulation of the policy-frame. Policy-frame has two aspects: first, coordination of goals, and second, use of instruments in a coordinated manner to attain these goals. DRG attributes the failure of planning in India to the absence of policy-frame. He approved broadly the plan model but deplored the failure of the government to adopt a proper policy-frame. We have devoted three chapters to this subject. The first of these deals with the two aspects of policy-frame viz. price policy and incomes policy. Price policy is an important instrument to attain the plan objectives. It acquires importance because development planning entails commodity production of all kinds. The resources available are to be allocated for production of different commodities according to the requirements and demand for each commodity. A plan of production has, therefore, to take into account all these factors and without a proper price policy this is not possible. Incomes policy is another side of price policy. When establishment of an egalitarian order is the goal
incomes policy cannot be ignored. In the absence of a proper incomes policy, as it has happened in India, inequalities increase. This in turn distorts the demand pattern and this in turn results into warping of production programme. The other instruments include fiscal and monetary policies, import-export policy, etc. A coordinated use of all the instruments is an essential requirement of successful implementation of plans.

Prevention of monopolies and concentration of economic power is another specific goal. Developing countries have to face peculiar problems in this connection. DRG makes an important point that monopolies are partly the result of planned action. It is unavoidable. At the same time government needs to take measures to check the undesirable consequences of the emergence of monopolies. In a mixed economy, which DRG advocates, the problem is to regulate industrial development in such a way that the monopolies created by planned action do not distort the original plans but subserve the purposes of the plan. This is a delicate problem and the problem is not solved just by nationalisation. He draws attention to the fact that nationalisation may in fact run counter to the socialistic objectives; what is of crucial importance is that the authorities in power must have a vision about the goals of plan and administrative capacity and political will to steer through the pressure politics. The whole discussion, therefore, is relevant for understanding the problems of developing economies. The third chapter in the second section is devoted to the discussion of this aspect.
The third and the last section is devoted to the discussion of the problems of the cooperative movement. DRG believed that ultimately democratic socialism thrives on healthy growth and functioning of voluntary action and organisations, among which cooperatives of all kinds have an important place. It is only through such organisations that ordinary citizens get an opportunity to participate in social management and to shape the development planning. The ideal in this field is the establishment of Cooperative Commonwealth. However, DRG was clear in understanding that there are limits to the extent to which cooperativization can be extended. He, therefore, advocated that where cooperative organisations cannot be established, we should strive for the acceptance of cooperative values. The problem is, however, difficult. There are several questions which need consideration: What are the cooperative values? What is the role of government? What kind of training of workers and people in general is required? These and similar questions have to be dealt with. Prof. Gadgil not only advocated establishment of cooperative commonwealth, but as a pragmatist considered all such problems at length and, as is well known, took initiative in establishing and strengthening cooperative organisations in various fields. One who wants to understand the problem of a developing nation, striving to attain this goal, has to study seriously the difficulties that are in the way of attaining this goal. The analysis in this section, consisting of three chapters, is thus relevant from this point of view. The study of Prof.
Gadgil's thought would not be complete without studying his thought relating to Cooperative Commonwealth.

It will be quite apparent to those who are familiar with Prof. Gadgil's literature that he never treated the problems of India, as purely economic problems. He was concerned with understanding the total reality. Development, he emphasised, is ultimately a political process. Therefore, in the planning organisation those who are poor and weak need be given scope to participate fully. The problem of caste system is quite unique in India and whether it is a cooperative organisation or rural industrialisation programme, one cannot ignore the caste dimension. Prof. Gadgil shows awareness of this dimension of the development problem.

Prof. Gadgil's position on economic issues is thus best analysed as his 'political economy' rather than as his 'economic thought' in the abstract.
Section I: Agricultural Economy

The first section, which deals with agricultural development, is divided into three chapters, viz., (1) Plan Organisation for Agricultural Development, (2) Reorganisation of Agriculture and (3) Marketable Surplus and Economic Development.

DRG's stress on agricultural development becomes obvious even after a cursory reading of his writings. India being primarily an agricultural country with vast countryside untouched by modern development, naturally led him to think of planning economic development in the context of a predominantly agricultural country. He held that without agricultural and in general rural development, planning for economic development of India in a real sense, was not possible. It is, therefore, understandable that in the entire writings of Prof. Gadgil, larger space was devoted to problems of agricultural development.

Agricultural development has many aspects; we have, however, dealt with DRG's views relating to only important aspects indicated by three chapters stated above. There are other topics, besides these, such as agricultural finance, agricultural labour, irrigation, etc. While recognizing the importance of each of these, DRG seems to have concentrated mainly on the three topics mentioned above.

The sequence that is followed here, needs really no explanation. The backwardness of Indian agriculture, which has
persisted throughout a long period under the British regime. It was, therefore, necessary to think of planning for its development systematically. As is well known, DRG was not prepared to rely on the operation of free market mechanism. The special features of Indian agriculture, which would be studied in detail at proper place, required, according to him, proper planning. The first chapter, therefore, deals with this aspect. The chapter dealing with structural reorganization follows next. The land reform policy and the spontaneous movements like Bhoomidan and Gramdan are important from the point of view of reorganization of agriculture. DRG, while analysing these, draws attention to some neglected aspects like consideration and cooperativization of small farms. Agricultural development, for him, does not mean merely increasing aggregate agricultural production; agricultural development, according to him, should also be just from the point of view of a small man. He is equally or perhaps more keen about this. The second chapter is organized from this point of view. The third chapter deals with marketable surplus and stability. There can be no two opinions about the importance of marketable surplus for the economic and especially the industrial development. A continuous and increasing supply of agricultural inputs and foodgrains is a precondition for economic development. How to arrange to get it is therefore a matter of crucial importance. Prof. Gadgil's views in this connection are, therefore, important to understand his general view of economic planning and development. This chapter is thus expected to lead us smoothly to the second section dealing with industrial development.
CHAPTER II

PLAN ORGANIZATION FOR AGRICULTURAL DEVELOPMENT

1. Introduction

It would have been preferable to devote a chapter on DRC's views on planning organization in general rather on planning organization with special relation to agricultural development. However, we decided to discuss his views in this field in relation to agricultural development mainly because he himself preferred to dwell on this subject in the context of agricultural development. It is to be noted, however, that many of the points he makes in this connection are of wider application.

2. Difference between Planning for Agricultural Development and Planning for Industrial Development

DRC held that there was little of planning practised in India in general, and there was much less of it in agriculture than in most of the other areas of economic activity. Clarifying this he states that there is a clear distinction between generalized developmental effort and specific planned action; while there were number of schemes independently operated by different agencies, there was little effort, according to him, to coordinate them with a view to attaining specific goals. Planning essentially means coordination of individual schemes
and projects with the purpose of attaining goals accepted at the time of plan formulation.

DRC makes a few important points in relation to planning in agriculture; here we will deal only with these.

He starts with the general statement that planning in agriculture differs from planning in industrial and other sectors in important respects. In agriculture, the units of production are numerous and are not under the direct control of government. He assumes here that in India, land would not be nationalized; nor would there be compulsory cooperativization and collectivization. He holds that production units should be in the private hands once land reforms are carried out. Under these circumstances, the government can only influence the decisions of these numerous holders; therefore, "planning for agriculture necessarily means planning to induce or influence this innumerable body of individual small entrepreneurs to take the decisions and perform the actions that are expected to give the desired results." (Gadgil, 1972, p. 220.)

The point made by DRC is of vital importance. One can very well appreciate the difference that exists in the nature of planning for agricultural development and planning for industrial development.

Let us see the differences in these two sectors. The first difference relates to the number of production units. In agriculture, the number of units is numerous; further they are
widely dispersed through the length and breadth of the country. This is not so in the industrial field. The number is not only much smaller but entrepreneurs are by and large also concentrated in cities and towns. From the point of view of planners and government this is a favourable factor. Secondly, large variations in geographical and climatic conditions influence the nature of production in agricultural units. Such variations matter relatively less in the case of industrial production. Consequently regulation of agricultural activity becomes difficult. Thirdly, agricultural activity is undertaken by a large number as a way of life; it is not necessarily a commercial activity. The industrial activity however is necessarily a commercial activity. The instruments available to regulate such as price and credit control, taxes etc. are, therefore, of little use in the case of this large section of agricultural producers. Further, being widely dispersed and there being difficulties in transport and communication, agriculture presents additional difficulties from the point of view of effective planning and regulation.

In the context of these conditions, planning in agriculture becomes much more difficult. The difficulties become serious further when the objectives to be attained are too many. For example, the objectives of agricultural planning in India include, increasing agricultural production and marketable surplus, bringing about structural reforms, reducing under- and unemployment in agriculture, modernising the techniques of production, diversifying agricultural production and so on.
Preparing a strategy to attain all these objectives simultaneously is not an easy task. It is therefore obvious that planning in agriculture is not only different from that in industry but is also much more difficult and involves a good deal of uncertainty.

Since DRO is touching this aspect only by way of introducing the broader subject of agricultural planning, we will not go into more details.

In regard to planning for agricultural development, DRO makes an important observation viz. that planning is a two-way process, and therefore we have to think of devising proper mechanism for planning both at the lowest and highest level. Let us study these observations.

3. **Planning: A Two-Way Process**

Planning is essentially a two-way process; it has therefore to be initiated at both ends: the national level at the top and the lowest planning unit level below. At the national level, a general framework is to be laid down, indicating the broad objectives and directions, the degree of intensity of effort and the manner of coordination of various activities related to these goals. The most important aspects of such a framework are (1) appropriate price and trade policy (2) policy relating to the production and distribution of all kinds of inputs and (3) conducting research and its application in numerous different situations in the country.
At the other end plans have to be prepared, which would take into account the local resources, skills and problems. The needs of the local area, the capacities, factor endowments etc. have to be carefully considered while making a plan consistent with national objectives.

Just as the national plan is not a summation of regional or local plans so also the latter do not just represent a breakdown of the national plan. The two influence and enrich each other. DRC explains "... whereas the overall objective and policies, the degree of intensity of effort, and the manner of coordination of various activities would be determined for the country as a whole or for states, the extent to which, and the manner in which, an effort in any given direction in a region or location will go, has to be determined for each specific situation. Therefore, while the estimate of what should be attempted in each specific situation has to be made in relation to the overall objective and directives, the actual targets set for the total effort can be determined only in relation to the totality of the estimates of possibilities assessed for particular situations. It is only by providing for such a mutual influencing process that a national plan that is realistic, meaningful, and detailed can be framed." (Ibid., p. 219.)

It is true that planning in India was hardly a two-way process. This was to a certain extent natural. Planning in India essentially began as an effort on the part of the government at the Centre. The First Five Year Plan was mainly an
effort to coordinate and rationalize in one frame, actions which were already taken by a number of State Governments. The Second Five Year Plan was a larger effort and it had a strategy. But the initiative had come from the Centre though the need to involve the States was realised. In the subsequent plans this need was stressed more and more but little precious was achieved in this direction. Consequently mobilization of local resources and articulation of local needs did not take place. Schemes acquired uniform character disregarding local needs. A number of instances were pointed out by the Agricultural Administration Committee, and DRC draws considerably on its observations and also on reports of other committees. He quotes, for example, the general experience that the pattern of work and allocation of funds remained uniform and rigid even though it was known and admitted that development blocks differed substantially from each other. Again in particular regions, where water-logging was the major problem, involving over 35 lakhs of acres, no scheme was thought of.

However, the worse consequence of Central initiative was that the Centre started shaping the plans of the States also; DRC draws attention to this aspect in his address given in Ahmedabad in 1968.\(^1\) The Central authorities instead of confining themselves to laying down framework as outlined above, started preparing schemes and projects for the State plans. The

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\(^1\) A.R. Kamat (ed.). *Selected Writings and Speeches of Professor D.R. Gadgil on Planning and Development*, pp. 287-96.
State plans, instead of evolving on the basis of local needs and resources, started consisting of such schemes and projects. Various authorities at the Centre assumed the role of preparing schemes for the benefit of various regions and these schemes were accompanied by different kinds of grants and patterns of assistance from the Centre. The States acquired the habit of preparing their own plans by choosing from these schemes and the choice of schemes was not dependent on their suitability to their regional conditions but on the pattern of assistance and grants that accompanied them.

One of the important contributions of DSRO, in this context, is that he reversed this practice when he assumed the leadership of the Planning Commission and asked States to prepare their own plans on the basis of their own resources, augmented to a certain extent by Central assistance. He told firmly that the Central assistance would be available only in terms of finance and not in terms of 'standard schemes and projects'; it is for the States to see how much internal resources they can mobilize and how best to put them to use in terms of their own projects. He insisted further that the process of planning in this sense should be initiated from the lowest levels.

It is necessary to note here that this view of DSRO is not exclusively applicable to agricultural development alone but to the entire field of economic planning at different levels.

4. **Planning at the Lowest Area Unit**

At the lowest level, DSRO regards two questions as of
primary importance: (1) the area of coverage and (2) the structure of the planning authority. (Gadgil, 1972, p. 230.)

As regards the first, DRG emphatically states that it is a mistake to have village as the lowest planning unit. This is in contrast with the position taken by many who include Gandhians and also those who very often talk in terms of planning at the village level. DRG rejected all such ideas and advocated 'market-area' as the lowest planning unit. Market area, according to him, would be determined by considerations relating to the supply of various material and articles required by rural producers and consumers in order to produce and consume and considerations relating to the sale of the produce in the larger national market. He also attaches importance to the homogeneity of agricultural conditions while determining the market area. In brief, market area, the lowest planning unit, is thus the region which is homogeneous in character and which offers economies of scale for sale of produce and supply of materials of all kinds.

Defining a region as a distinct spatial entity has always been an intricate problem and has engaged wide attention. DRG has not referred to the literature on this subject; nor does he explain why he chose 'market area' concept as the lowest planning unit. It seems that he advocates the concept of market area not necessarily only for the purpose of agricultural planning but for the purpose of planning in general. This is clear from the fact that he is referring to the producers' and consumers' needs in the region. Inclusion of homogeneity as one of the criteria is
perhaps due to the desire to plan properly for agricultural development.

The concept of market area as the basic planning unit implies that planning for development must be based on a concept of region which includes not just a group of villages but which takes into account rural-urban continuum and also reciprocity between rural and urban development processes. Integrated approach to planning must lay emphasis on focal points in the countryside which can provide the needed link between a few large urban centres and too many small rural settlements. When DRG advocates the concept of market area, he essentially pleads for starting the process of planned development from below. During the course of British regime, a few large cities emerged and the conditions of vast countryside deteriorated. The stagnancy and neglect of the countryside is very well illustrated by a few indicators. "... in India there is only one town to serve as many as 190 villages. Only 2.6 per cent of the villages are situated within a distance of 3 km from a town. Over half of all the villages are located at a distance of 15 km or more from a town. When we take into account the inadequate transport and communication network and social facilities, etc., the situation becomes depressing. About 65 per cent of the villages are 8 km or more away from health, education (non-primary), marketing, transport (all weather) and communication facilities. More than one-third of the villages are linked only by foot tracks with the nearest telegraph office, primary school,
hospital, bus stop and shopping facilities. The rural population linked with railway or metalled road is only one-fourth of the total. If we also take into account the poor standards of facilities and services offered by small towns, which are nothing but large villages with higher percentage of non-agricultural population, the inadequacies of rural urban relations become more pronounced.²

In the context of this situation DRC's suggestion that basic planning unit should not be just a village or a group of villages, but a market area, needs to be understood and appreciated. Prosperity of agriculture depends not just on supply of inputs and extension service but largely on establishing links between villages inter se and between villages and market centres. Proper roads, transport means, communication, market links, market intelligence, dissemination of knowledge etc. - these and many others are equally relevant for the progress of agriculture and therefore planning for agricultural development includes planning for all these aspects. Such kind of planning is possible only if we start demarcating regions properly.

The problem, however, is not solved merely with the mention of the concept of 'market area'. What seems necessary is to visualize the entire process of development in which we have to

think of a series of regions or areas leading upward. DRG does not go beyond mentioning the importance of basic planning unit. Since we have discussed this question at length later in Section II, Chapter V (Rural Industrialisation), we need not go into it here; we will proceed with his next contribution.

At this level of planning unit, the planning authority, according to DRG, should be composed of three 'elements'. The first consists of representatives of local self-government organizations of the area. DRG finds them useful in the interest of coordinating the activities of various departments in the area. The second consists of representatives of various kinds of cooperative organizations in the area. DRG's special regard for the role of cooperative organizations is well known. It is through the network of various kinds of cooperatives that he desires that the economic life of the nation should be conducted; it is according to him the primary mechanism to mobilize, organize and channelize the resources and talents in the society; it is only on the basis of cooperatives, he believes, that democracy can thrive and prosper. We will deal with his thought in this connection in Section III (Cooperative Commonwealth) of the present work. The third element is the one representing the expert official technical personnel.

These three elements cover the interests of all sections according to DRG and therefore no more element was considered by him. He stresses this point by saying that the structure of planning authority at this level should not allow for the membership of elements which are not functionally related to the
activities that are being planned. The reason according to him is obvious. "When this happens door is left open for the entry of political and other considerations which deflect planning activity from its real purpose." (Gadgil, 1972, p.230.)

The principal objective of this planning body, DRG states, is to develop the resources and increase production of all economic units in the area.

A close examination of the above reveals certain important deficiencies.

DRG seems to be of the opinion that once these three elements are allowed to work, the development planning of the area would be quite satisfactory. This is rather a very simplistic view of the development process. It is necessary to bear in mind that the objective of planning at this level in particular is to bring about an improvement in the conditions of the most poor and disadvantaged sections of the society. The Planning Body, constituted according to the ideas of DRG would succeed in attaining this objective only if the leaders work with spirit and motivation for the interest of this class. If the planning authorities are guided by the interest of large farmers, traders and industrialists, the development process will take a turn which is contrary to DRG's own expectations. As DRG himself states, the major problem in Indian agriculture is the reorganisation of small and marginal farmers suitably before any development programme is undertaken. Orientation of development plans from the point of view of benefit to the weaker sections
requires a leadership with proper perspective and motivation. The elements recommended by IDA are not likely to fulfill this expectation. In fact, all the experience in the past, confirms that interests of weaker sections are neglected if the development planning is left to other elements in the society.

If we define rural development as mainly "improving living standards of the mass of the low income population residing in rural areas and making the process of their development self-sustaining," then in the planning process we will have to emphasize on a priority basis schemes and projects which would directly contribute to the development of the poor. It is now common experience that development planning, which ignores the poor - their effective organization and awakening - may give high growth rates but that does not eliminate or reduce mass poverty, unemployment and the consequent misery in the society; it often amounts to putting "the good face" on an increasingly diseased body. As the World Bank Report states, "Statistics conceal the gravity of the underlying economic and social problem, which are typified by severely skewed income distribution, excessive levels of unemployment, high rates of infant mortality, low rates of literacy, serious malnutrition and widespread ill-health." The objective of planning is thus not merely increasing aggregate production; but rather increasing production of small and marginal farms, dry lands and lands which are less productive. So also those who have no land or other means of production, need opportunities to augment their
incomes. Development strategy in terms of quantitative targets is, therefore, not what is required for the elimination or reduction of poverty; rather we want a development strategy with socio-economic goals in which increasing production is the device used to achieve these goals.

DRG in all his writings appears to accept this view of development strategy; however the structure and composition of planning authority he suggests, seems to be of doubtful utility to achieve the goals.

The conflict of interests of different sections is well known and therefore what is necessary is to see that those who are disadvantaged and weak, socially and economically, should be adequately represented in the planning organisations at lower levels in particular. In the three elements listed by DRG, representatives of weaker sections are presumed to have been covered. This presumption is not necessary realistic. Perhaps DRG might have thought that representatives of cooperative organisations would include representatives of weaker sections. This may not be the case; in fact the experience is on the contrary. We will have occasion to elaborate this later in the third section of the present work. The other two elements viz. the representatives of local self-government and official technical personnel, too, are not likely to represent the interests of weaker section. It is therefore necessary to see that the weaker sections get representation directly and adequately. One wonders why DRG did not make this point explicit even though he was aware of the need of such representation.
5. **The Superstructure of Planning Authority**

The superstructure of planning authority visualised by DRG consists of similar bodies at the district, regional and State levels. He insists that each of these should be a fully operative planning organisation.

At the highest level, the role of authority is different and limited. The body at this level, as stated earlier, has to lay down the basic framework. To state briefly again, it has to formulate appropriate trade and price policies, indicate objectives and general principles in matters relating to land reform, cooperative organisations etc., attain general coordination and maintain an adequate flow of especially important supplies and regulate their distribution (*Ibid.*, p. 231). We have discussed matters relating to these aspects of policy at an appropriate place.

According to DRG, the Centre failed in most of these respects and the reason of this flows from "the present organisation of planning at the Centre" (*Ibid.*, p. 231). What is "the organisation of planning at the Centre"?

At the highest level, there is the Cabinet (i.e. the government) and the Planning Commission. The Planning Commission, whose duties were specified, was to work as an Advisory Body only, while the government was expected to take decisions after considering the advice and views of the Planning Commission. DRG approved that of this arrangement; he was consistently advocating the Planning Commission must remain an advisory body and must not even
remotely get itself involved in actual policy decision-making process. It is not clear whether DRG visualises parallel structures, one of advisory body and the other of executive, right from the lowest level to the highest one. This is, however, unlikely.

Having approved "this organisation of planning at the Centre", DRG states that the failure at top flowed from the failure to keep the functioning of Planning Commission clearly distinguished from that of the government (i.e., the decision-making and executive body). He rushes with the remedy: "Looked at from the point of agricultural planning there exists a good case for the abolition, at least the suspension, of the activities of the Planning Commission and placing the work with a policy committee of the Cabinet. The grounds for this are twofold. As an agent of planning the Commission contributes not new knowledge but only old prejudices. But even more serious is the apparent effect of the existence of the Planning Commission on the working of the Central Cabinet. The individual minister and the Cabinet as a whole, evidently treat the operations of the Planning Commission as an excuse for not making explicit and consistent policy." (Ibid., p. 232.)

It is rather difficult to appreciate the conclusion reached by DRG. The suggestion appears to be the outcome of desperation rather than of cool reasoning. If there is a failure, it is not only in the field of agricultural planning but practically in all other sectors. As we will note in the course of the study,
failures in industrial field were equally important and possibly
DRG attributes this overall failure to the same reason stated
above. In the light of this, if the activities of the Planning
Commission have to be suspended as a remedy for this, it is not
only in regard to agriculture but in regard to all other fields
also. It amounts to the virtual suspension of the Planning
Commission or to its reduction to the position of a secretariat
department to the individual ministries.

A deeper analysis is required in order to find out the
reasons for the failure. DRG himself undertakes this task in
his Laski Memorial Lecture on "Role of the Planning Commission"
delivered in March 1958. Here he deals with the planning
problem in general and not with agricultural planning alone. It
thus gives us the entire perspective of DRG in regard to planning
organization and therefore it deserves somewhat elaborate
study here.

The Planning Commission, in the opinion of DRG, should be
an advisory body, consisting of experts in various fields. Its
job is to consider the problem of national planning objectively
and scientifically and place its views and plans before the
Cabinet. The planning process after all is substantially 'a
political process'; i.e. the Cabinet will take ultimate decisions.
The role of the Planning Commission is to present a spectrum of
views and possibilities so that decision-making would be easy and
the government would be led to take correct decisions. Planning
Commission is not only to formulate five year plans but to watch
the day-to-day situation and press the government to take proper action from time to time. In any case, the Planning Commission must not get involved in the decision-making process; it is for this reason that DRG did not want any minister or even the Prime Minister to be a member of the Planning Commission.

Briefly, there are three aspects with which planning may be concerned. First, there is a need to mobilize the services of experts in order to assess the potential for development and formulate plans to exploit this for development. Second, to implement these plans there is a need to take appropriate decisions from time to time; this is a political process. Third, there is a need to keep a close watch over the actual implementation process and also over the developments that may arise out of the implementation process. According to DRG, Planning Commission should concern with the first and third aspects.

Having made this stand clear DRG analyses the failure. He makes two kinds of important observations. First, as expert body the Planning Commission failed to make realistic, objective estimates and analyses in important fields. It was "a failure for which the politicians could in no way be held responsible. It was a failure on the level of technical competence." (Ibid., p. 162.) DRG gives illustrations to support this. It is not necessary to/into these details. The second type of observation relates to its failure to realize that it is not a decision-making body but a body which would present a view for consider-
ation before the Cabinet. In this capacity it was the duty of the Planning Commission to study on its own the situation constantly and press the government to take prompt and correct action to meet difficult economic situations emerging from time to time. The foreign exchange crisis, which developed immediately after the first year of the Second Five Year Plan, the inflationary price situation, acute shortages of essential commodities experienced from time to time - in times of these kinds of crisis, the Planning Commission appeared to be behaving as if it was not their concern at all. "Once the plan had been prepared and published, it [i.e. the Planning Commission] seemed to go into quiescence ..." (Ibid., p. 158.) To summarize briefly the Planning Commission "failed to put together detailed and meaningful plans after due technical and other examination; it did not produce objective criteria relating to composition of programmes allocations, etc.; it failed to produce annual plans with appropriate break-down, and failed to watch the progress of the plan even in its broadest elements; it failed to give advice insistently on right policies being followed, and at times, even participated in the adoption of wrong and inappropriate ones." (Ibid., p. 169.)

DRG asserts that "the root of the failure lies in the process by which the Planning Commission, essentially only an advisory body, has come to mix itself with the actual process of the formulation of public policies even in matters other than that of development." (Ibid., p. 169.) This was inevitable
because of the peculiar composition of the Planning Commission; it contained "ministers and experienced administrators and public men of standing almost none of whom brought to his task experience, knowledge or expertise," required for the job. "It is the power complex of the Planning Commission or its members, their natural desire to exercise power and patronage like ministers that are chiefly responsible for the neglect by the Commission of its main functions and for a needless extension of its activities over many irrelevant fields. The misdirection has been helped largely by membership of the Prime Minister and the Finance Minister of the Planning Commission which appears to have vested the Planning Commission and its decisions with an unnatural kind of prestige of importance." (Ibid., p. 170.)

It is thus clear that DRG wants Planning Commission to be an advisory body, concerned with the formulation of schemes and plans, assessment of the situation from time to time and rendering advice - in fact 'insistently forwarding views' - on all matters regarding economic problem. The actual decision-making and implementation rest with the government.

One may agree with this line of thinking. However, even then some problems remain. The foremost is the question of appointments to the Planning Commission. Since the government is going to make these appointments, the interests which are represented in the Cabinet are also likely to influence the appointments on the Planning Commission. In that case, there is no guarantee that the type of development planning which DRG
visualizes would be accepted by the Planning Commission. DRG himself concludes that distortions in planning occurred because of the dominance of the big industrial houses; (we would see the details in the course of the present study); possibility of reorienting development planning from the point of view of the interests of weaker sections in the society thus becomes difficult. It is therefore necessary to ensure that the Planning Commission would consist of not just experts from the technical point of view but it should also include members who will bring to the task of plan formulation the interests of the weaker sections. The bifurcation of the Planning Commission from the Cabinet is thus not going to solve the problem.
CHAPTER III

REORGANIZATION OF AGRICULTURE

1. Introduction

The subject of 'Agrarian reforms' has always enjoyed the primary place in the discussions at all levels in the country. Long before the attainment of independence, the Congress Party urged the government to undertake drastic land reforms as early as possible. The system as it evolved during the British regime was feudal in character; a large number of intermediaries and absentee landlords had emerged blocking the development of agriculture. The tiller of the soil was not enjoying any security and was bearing the increasing burden of high rents and unredeemable debts; he had lost all incentive to bring about any improvement in his agricultural business. It was, therefore, quite natural that after the attainment of independence the government regarded it as her first task to think of a comprehensive land reform programme. It had also become urgent because of the sweeping and successful land reforms in Russia and later in China, which led many thinkers to conclude that radical land reforms is a pre-condition of rapid economic development.

2. Main Thrust of the Argument

The land reform programme that was adopted in principle, by the government may be stated briefly as follows:
1. The abolition of intermediaries

2. Tenancy reforms designed:
   (a) to scale down rents to one-fourth or one-fifth of the produce;
   (b) to give tenants permanent rights subject to the landlords' right to resume a minimum holding for his personal cultivation within a limited time;
   (c) to enable tenants (subject to the landlords' right of resumption for personal cultivation) to acquire ownership of their lands, on payment of moderate compensation to the landlord, spread over a period of years.

3. Fixing of ceilings on holdings

4. Reorganization of agriculture including the consolidation of holdings, the prevention of fragmentation and the development of cooperative village management and cooperative farming.

It is not necessary to go into the details of these reforms nor into its elaborate evaluation. The brief statement of land reform programme is necessary only to understand the significance of DRC's views on this subject.

Without any prejudice to the first three items, DRC seems to attach highest significance to the last item. The reason is that according to him in the Indian context, increase in agricultural production (and the general economic development) is in the main dependent upon increase in the unit of management of land. In fact, this was also the official view. The First Five Year Plan clearly states that "the basic condition for increase in agricultural production is increase in the unit of
management of land".¹ But while stating this in the plan document, the government did not care either to elaborate or prepare schemes in order to implement it. DRG, on the other hand, constantly drew attention to this aspect of land reform. He provided the rationales, marshalled all the statistical evidence in support of it and pleaded for action in this regard.

The first three kinds of reforms, DRG contends, were not expected to affect the size and organisation of the unit of agricultural production. The abolition of zamindari, for example, left the structure of cultivated holdings more or less unaffected. It was, therefore, rightly described as the abolition of intermediaries. The measure was no doubt necessary as it was intended "to put heart into the erstwhile tenant and reduce the share of the agricultural produce with which he has to part in terms of revenue and/or rent; but it was not expected to alter the size or shape of his holding nor indeed increase immediately his total working capital resources". (Gadgil, 1972, p. 59.) This was because abolition of intermediaries was not expected to break up large farms or bring about redistribution of land. The lands held by zamindars were let out under different terms to tenants who were enjoying certain rights in these lands. Many of these were permanent tenants and could not be evicted. Other kinds of tenants were also enjoying certain rights according to long established

¹ First Five Year Plan, p. 93.
conventions. The zamindars were thus not 'kulacks' or landlords known in the feudal stage in Europe.

The tenancy reforms were more comprehensive and covered a larger area. It was directed towards obtaining for the tenant who was mostly the actual tiller of the soil, security in the cultivating possession of his holding. This measure also does not affect the size and shape of the agricultural holding. Like the first one "it brings about in the main, a redistribution of the total produce in favour of the tenant and also gives him a sense of security regarding the future which should react favourably on the economic and technical operation of the tenant cultivator." (Ibid., p. 60.)

Imposing ceilings on land holding is of a different nature. It is pre-eminently a redistributive measure. The idea basically is to ration land in such a way that, above a certain maximum, land is taken away from the present holders and is distributed to the landless or small holders according to certain priorities. It is thus likely to affect the size of the unit of agricultural production much more directly than the abolition of intermediaries or tenancy reforms. However DrG did not expect much surplus to result from this measure. Apparently he believed that this redistributive measure would do no harm to the most productive farm enterprises. He held that if while imposing ceilings, the concept of economic holding is accepted, there would be small scope as the number of big farms is relatively small and further the administrative and socio-
political factors would reduce whatever scope that exists in this regard. DRG wrote this in 1954 when the Ceiling Laws were not on the statute books in any State and no studies were available showing how much land would be available as surplus land after imposition of ceilings. As later events proved, it became clear that ceilings, however low, may not make much surplus land available to meet the land hunger of the masses. In their famous study Dandekar and Rath conclude "... even with very low ceilings, no more than half an acre can be given to each rural household in Kerala, Tamil Nadu, Assam, West Bengal, Jammu-Kashmir and the Union Territory; no more than an acre each can be given in Bihar, Orissa, Uttar Pradesh and Punjab; no more than 2.5 acres can be given in Andhra Pradesh, Mysore, Gujarat, Madhya Pradesh and Maharashtra and even in Rajasthan, only 5 acres can be assured to each rural household."

It may be noted here that DRG did not advocate drastic reduction in maximum holding or something like equal distribution of land among cultivators. His main concern was to ensure minimum or floor holding. He thus does not follow what is commonly known as the communist line viz., parcelling out land first more or less equitably and then bringing all farmers alike in suitable cooperative organizations. He was advocating co-operativization of mainly small uneconomic holders.

While all these reforms were essential, it was equally
essential according to DRG to formulate and adopt the concept of economic or floor holding. This required considerable reorganization of agricultural structure. He deplored that this vital step was totally neglected in all states. The First Five Year Plan mentioned cooperative farming or cooperative village management as the measure in this direction. But these remained only in the stage of thought. In fact, government appeared hesitant and unsure though it accepted it in principle. As an evidence of this hesitant and uncertain attitude DRG quotes from the Plan itself. The Chapter on Land Policy recognized two aspects: Land Management and Land reforms and it was urged that "Land policy should include both elements but should maintain a balance between the two." 3 This was construed to imply a conflict between the two. This implication was baseless according to DRG and constituted the weakest link in the land reforms policy. He emphatically states that without any effort to introduce the concept of minimum or floor holding, the land policy would remain grossly inadequate.

3 Statistical Background of the Argument

DRG comes to this conclusion after examining the statistical background of the agricultural structure. Though generally it was known that the size of the large bulk of farms was very small, in fact too small to be called a family farm in any valid sense of the term, no attempt was made to indicate with

figures the dimensions of the problem. DRG deemed this important in order to come to the conclusion that the basic problem in India is not redistribution of land but bringing together numerous small holdings. No data was available then; but the Rural Credit Survey was in progress and since DRG was intimately associated with it he was in a position to use the data that was being collected. He examined data from 600 villages in 75 districts, pertaining to the year 1951-52. He found that half or more of the farm units i.e. independent units of land management in India, were having a gross produce worth less than Rs. 600 a year. Further these cultivators appeared to be earning little, if any, net cash income through their farming activity and the main advantage derived by them from farming was some contribution in kind to family living. The major source of cash income was wage receipts. He concludes from this data, "the size of farming business of at least half the cultivating families in India is such that it is futile to consider them as independent units of land exploitation in any plan for a developing economy." (Gadgil, 1972, p. 71.)

The peculiarity of this analysis lies in that it is based on the analysis of income data rather than the one relating to the size of land holding, which is the usual way. In a sense it was more useful to demonstrate the smallness of agricultural enterprise. The National Sample Survey (NSS) made available the data regarding size-wise distribution much later. If we consider this it will be found that what DRG stated was borne out more or less fully at a time when there was paucity of data.
in this regard. If size class up to 5.00 acres is considered generally as uneconomic holding, 61 per cent of total farmers become economically non-viable. If holdings up to 2.5 acres are considered, still about 40 per cent farmers are non-viable (see Table overleaf).

But perhaps more important are the data relating to parcelisation of holdings. DRG refers to this phenomenon but does not produce any data. Such data is now available in the reports of the N.S.S. It will be found that the extent of parcelisation is very significant in all size-classes. The average size of the parcel does not exceed 7.8 acres; if we leave out size class of 50 acres and above, the maximum size of the parcel is only 4.4 acres. If we remember further that these parcels are widely scattered over a large area and that the number of parcels is increasing day by day and the average size is declining, we will be able to appreciate the need of combining these small pieces of land for meaningful cultivation.

4. Small Farmers and Cooperative Farms

Thus on the basis of the evidence available DRG contended that any development plan which does not include a programme of consolidation and cooperativisation of uneconomic holdings, is meaningless. DRG deplores the fact that the government as well as the important political leaders ignored this vital aspect of development. Everybody, he noted, was talking about independent "peasant holding". While DRG was not against it, he was raising a basic question that where the individual holding is very small,
### Parcelization of Operational Holdings: Rural India: 1960-61

<table>
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<th>Size class of operational holdings (acres)</th>
<th>Estimated No. of holdings (000 Nos.)</th>
<th>Estimated area operated (000 acres)</th>
<th>% of total</th>
<th>Average number per holding (acres)</th>
<th>Average size per parcel</th>
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<td>1053</td>
<td>0.32</td>
<td>1.82</td>
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**Source:** M.S.S. 17th Round, Report No. 146, Indian Statistical Institute, 1966. Minhas, p. 84.
what should be the mechanism for increasing its productivity or even to ensure that it will be cultivated by the holder properly according to the prevailing cultivation practices?

DRG's emphasis on cooperativisation of small uneconomic holdings thus should not be construed to mean that he is against individual proprietorship in agriculture. Far from being so. He is advocating peasant proprietorship wherever it is economically viable. At the time when he addressed the annual conference of agricultural economists (i.e. 1954), the new technology was not known. The new technology arrived only in mid-1960s. This for the first time created a possibility of converting small farms into economically viable farms. But even with the new technology all farms, however small, have no possibility of becoming economically viable. Among small farmers, majority have very small farms. After taking into account the new possibilities created by HYV technology, a further classification of small farmers came to be made in the Fourth Plan into small farmers and marginal farmers; the former consisting of those who have potentialities of becoming economically viable with the adoption of new technology; the latter consisting of those who have no such potentiality even with adoption of new technology. It is thus recognized that even with new technology a vast number of farms would be left with no alternative method than the one prescribed by DRG, vis., consolidation and cooperativisation to the extent necessary.

The difference between DRG on the one hand and those advocating peasant proprietorship (DRG calls them followers of
the American school) is thus limited and is due to DRO's constant concern for the small man in the Indian context. As stated earlier DRO is not advocating a communist line where breaking up of individual farms precedes wholesale cooperativisation or collectivisation of agriculture.

DRO complained, the Indian followers of the American school ignore the fact that there is a world of difference between the situation existing in India and the U.S.A. The land resources in the U.S.A. are very large and the proportion of population depending on agriculture is very small. Industrialisation has made substantial progress and is able to support large-scale mechanisation of agriculture. The problem there is thus how to manage vast lands with so little of manpower. In India the problem is quite opposite; the land resources are severely limited and the proportion of population depending on agriculture is vast and is not likely to be reduced significantly in the near future. The average size is being reduced rapidly. For a vast majority of farmers, therefore, the meaning of individual proprietorship is lost. For this majority there is no alternative to some kind of pooling of their resources. DRO's advocacy of cooperativisation is thus arising not out of any ideological consideration but out of pragmatic consideration.

DRO continues to harp on this theme consistently. He advocated the same view even after becoming the leader of the Planning Team, and it appears that this view was incorporated
in the Fourth Five Year Plan because of his influence and insistence. The Fourth Plan, while dealing with the subject, clearly states that "the basic problem is not that of bringing about large redistribution of land surface but that of combining land surface operated by vast numbers of small holders into units suitable for efficient cultivation." 6

DRG makes it clear that "the very small holding can find no place in the production organisation. ... None of the problems of inadequate or disproportionate equipment, of backward technique and inefficiency, of underemployment and wasted labour, of poverty and exploitation can be solved as long as the bulk of farming units are small." (Gadgil, 1972, p. 81.)

DRG advocates two steps in this connection: consolidation of small holdings into compact blocks and establishing cooperative farms of suitable size; the size varying according to regional needs and peculiarities. Let us review this aspect of his land policy.

The advantages of farming cooperatives of small farmers, according to DRG, are many and also obvious; to list them they are as follows: 5 In the first place, without cooperatives, an economic reorganization for operation of the existing numerous small units is impossible. Secondly, all aid, which the small


5 It appears that DRG uses the term "farming cooperatives" to include the entire cooperative activity undertaken to strengthen small farms; thus it includes service and credit societies also.
farmer needs, such as technical, financial etc., cannot be made available to him without such cooperatives. Thirdly, as long as there is no strengthening of these weak units "the balance in rural society will always remain against them"; (Ibid., p. 86) they do not get full advantage of all the government policies and schemes. A large government staff is in the rural area for many kinds of development work, but they are not in a position to help small farmers because they are not suitably organized. The work of this staff would come to have real meaning and purpose only if it is linked to a programme of the formation and operation of such cooperatives. The most disadvantaged and the most needy thus could be served. Finally, this step would lead to a better utilization of the labour of rural families; the extra labour uncovered could be made available for programmes of either capital works construction or for rural industrial development in a systematic manner.

To a certain extent the economies of scale in a cooperative farm of small farmers are obvious. The lands once pooled together, can be utilized more properly. On the other hand, very small farms are likely to be neglected or cultivated with less attention if left alone. The owner may not have implements, nor the time and energy to devote to the cultivation; he would be more willing to earn wages outside, and thus pay less time and attention to his own farm or lease it out to somebody. If he has resources like cattle, implements, water etc., there is a likelihood that they would be under-utilized and
wasted. In regard to labour, it is often pointed out that problems are too complicated to make economic utilisation of labour. "No wage costs can be reduced because no labour can be dismissed." This is however true only under the assumption that all labour of cooperating families will be utilised. DADG makes it clear that cooperative farming of small farmers should 'uncover' under- and unemployed element and this uncovered labour should be taken off the farm. He emphatically states that cooperative farms consisting of small farms have to operate in a situation where rapid economic development is planned and implemented (Ibid., p. 87); otherwise it is meaningless. Along with reorganisation of agriculture on these lines, he is visualising planning for industrialisation in which rural industrialisation is occupying central position.

With the establishment of cooperative farms, investment for land development including exploration of water potentialities becomes meaningful. It is, however, pointed out that "when small farmers cooperate and pool their lands what at best will happen is that technical hindrances to absorption of investments will be removed. This merely opens up a possibility. But the large-sized farm of a small farmer cooperative does not do anything to make itself economically stronger if it has to carry, as it must, its burden of population. In other words, the relatively weak resource position of the small

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farmers will place severe limitations on the possibility of realizing all the advantages of cooperative farming. And while mentioning the resource-position, let us also not forget to include in it leadership and managerial skills which would also be in shorter supply with the small farmers. 7 Admitting the limitation thus pointed out, it must be emphasized that this view holds good only in a static position. DRO, it may be repeated, visualises a rapidly developing economy where surplus manpower could be used for productive works outside the cooperative farm. The main advantage of cooperative farm is that productivity of the entire land has a chance to improve; with this the share of the individual also increases.

DRO makes another point that individual small holder fails to get credit assistance. It is because small and subsistence or below-subsistence farmers are not considered credit-worthy as the loans that they borrow tend to be utilised for consumption rather than for production and even if the loans are utilised productively, the increase in output tends to be diverted to consumption rather than to repayment of debts. Besides, he encounters numerous difficulties - social and political - which make him difficult even to approach the concerned authorities and consequently he is by-passed by credit organizations, cooperatives or commercial ones. It is argued by Dr. Deshpande that this situation is not changed just by forming a cooperative farm. This is because it is stated that

7 Ibid., p. 112.
basically small farmers cannot be helped much through credit; as they cannot repay their loans as individuals so also their cooperatives cannot repay because "co-operative farming does not do much to alter the land-labour ratio in any favourable way. Add to this the possibility ... that in a co-operative organisation, there would ordinarily be higher pressures for consumption. A system of carefully supervised credit might be of some help to the relatively better off among the small farmers; the really very bad cases cannot be ameliorated through credit."

Here it is assumed that a cooperative farm is not more than an arithmetic summation of individual farms. When small farmers pool together their land resources, the cooperative farm is something more than just a summation. Cooperative farm is potentially at least considerably more productive than the individual farms taken together. This is because of the new investment possibilities on a cooperative farm. The total income of a cooperative farm is therefore likely to be much more than the total income derived from individual farms cultivated separately. This implies that creditworthiness and repayment capacity are higher. It is however true that this may lead to higher consumption also thus reducing repayment capacity. But this can be controlled through proper discipline and motivation. Further, in an all-round developing economy, if the surplus labour is absorbed in non-farming activities,

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8 Ibid., p. 114.
pressure for self-consumption may be kept under check. It is therefore not necessarily correct to assume that cooperative farm will not make small farmer more creditworthy.

There is one question relating to the incentives. If employment outside is available, the problem would be how to get adequate number of workers for the work on cooperative farm. If the wage-rate outside is higher, which is more likely, than the effective wage-rate on cooperative farm (if it is decided on the basis of production on cooperative farm) there would be a scarcity of labour. In a surplus labour economy, this situation is not likely to occur. If on the other hand, there is little work outside, all members would scramble for work on the cooperative farm. In such a situation there would be a serious problem: all members cannot be given work on the cooperative farm. A selection may have to be made. Or alternatively all members will have to be given work on rotation basis.

The third advantage stated by DRC is of crucial importance. Briefly it is that if the weaker farmers are thus organized, they would generate a force in rural society which may effectively direct government efforts and resources towards their development. It is common experience that those who are economically stronger and well organized get all the advantages of the development plans; the weaker are by-passed. With the establishment of cooperative farms of weaker farmers, this situation can be altered considerably; in fact this would
generate forces which would eventually influence the entire planning process favourable to the most disadvantaged and most needy.

The discussion above makes it clear that DRC's advocacy of establishing cooperative farms of subsistence and below-subistence farmers is worth serious consideration. It may be emphasised that he is advocating cooperative farms for this class of farmers essentially in the context of a dynamic economy in which it is presumed that schemes for the creation of employment opportunities on a large scale would be undertaken. "The minimum target of an employment plan," he contends, "has to be cessation, at the earliest possible moment, of the increase in the number of families dependent for their living on land and agriculture." (Gadgil, 1972, p. 87.) The objective of establishing cooperative farms of small farmers is thus not to accommodate all existing labour but to 'uncover' the surplus labour and make it available for employment on productive work outside farm. Logically, it follows that even the labour that would remain on cooperative farms would also substantially be diverted outside, in course of time, as the economy develops. Cooperative farms in this sense, may be a stage in transition. When non-farm industrial employment becomes available, the class of small and marginal farmers may get reduced and in that situation, it may be inferred, DRC would not object to selling out of land by small farmers. This way of eliminating uneconomic holdings is not ruled out by DRC.
While DRO is advocating cooperative farms for uneconomic holdings, it may be noted again, he is not advocating cooperative farming for all farmers. This is because he believes that cooperative method is essentially for the weaker sections of the society; when stronger elements come together, it is a combination and not a cooperative. He is therefore opposed to it. This view will be dealt with at length in section relating to his thoughts on cooperation. What is relevant here is to note that DRO essentially is in favour of peasant holdings; it is only in the context of a large number of very small holdings, that he advocates cooperative farming.

5. **Consolidation: A Precondition for Cooperativisation**

Bringing together uneconomic holdings in a compact block is a pre-condition for establishment of cooperative farms. DRO attaches great importance to consolidation in this sense.

Its significance, enhanced in the typical Indian context, has to be properly understood. The small uneconomic holdings are scattered over a wide area. Their number and dispersal is increasing because of the typical laws of inheritance according to which land estate is prorated out among claimants. Since the land quality differs from plot to plot, each and every fragment is subjected to further and further divisions among the claimants.

The programme of consolidation, conceived by the governments in all States, has serious limitations. In the first place it is entirely voluntary. Secondly, it is confined to
plots owned by single individuals. DRG makes a very important point in this connection. Consolidation in this limited sense also is important. However he argues that it is more important to enlarge the concept of consolidation and bring together in a contiguous block all uneconomic holdings belonging to different owners in the village. This is necessary in order to carry out the programme of cooperativisation of small holders. If small holdings remain scattered, no meaningful cooperativisation is possible.

This would also be necessary for rational layout of the total land surface for agricultural and other utilisation. "The operation should, therefore, be undertaken as that of lying out areas, sections or fields for total land utilization and not be considered merely as that of mutual exchange of fields or fragments." (Ibid., p. 84) The consolidation operation thus in practical terms means total planning of the village land and thus may affect each and everybody in the village. The large and middling farmers, who will not necessarily be included in the cooperatives, would still be affected by this programme, as this may mean exchange of their plots with some other ones.

Such planning is possible only when the voluntary elements which is there in the present consolidation programme is removed. DRG is aware of it and he does not seem to mind some element of compulsion.

In order to make this programme feasible and palatable,
it is however necessary to exploit the potentialities of various lands in the village. Minhas makes this point very clear. Like DRG he advocates the same kind of programme but his programme is more comprehensive, thorough and is more development-oriented. He points out that the tiny parcels of land are so haphazardly laid out that where irrigation is possible, it is not capable of being used to the best advantage; and where cultivation depends on rainfall, the conditions for proper soil and moisture conservation are vitiated. The future planning for land and water development as well as for drainage and moisture conservation also gets vitiated for the same reasons. He therefore advocates a programme which is called as "Integrated Programme for Compulsory Consolidation of land holdings and complementary Public Works".\(^9\) Important features of this programme are as follows:

1. Consolidation of holdings must be made compulsory;

2. Prior to actual consolidation: (a) the entire land in each village should be topographically surveyed and levelled to receive water wherever water is already available; (b) the irrigation channels and drains should be constructed for the entire village; (c) if there exists a potential for additional minor irrigation works, these works should be constructed and rationally located from the point of distribution of water; (d) in dry villages, without any potential for underground water resources,

\(^9\) B.S. Minhas. Planning and the Poor, 1974, pp. 89-90.
land levelling and contour bunding for soil and moisture conservation should be affected for the entire village or a group of villages at a time; (e) village and feeder roads should be properly aligned.

3. The developed land should be so distributed back among the owners that each one of them has his holding in one or at the most two pieces.

Thus development is to precede consolidation and reorganization of land surface.

The task is immense even in terms of DRG's suggestions; but DRG points out that it is not more complicated or larger than the process of consolidation undertaken by many State governments. This is rather over-simplification. The process does involve thorough planning affecting all sections in the society and without their cooperation and some element of coercion, the programme cannot be carried out. The consolidation programme so far carried out in the country is of a very minor nature. Perhaps only in Punjab some success is achieved. To a certain extent the situation created by partition was responsible for it. Larger number coming from Pakistan was to be settled on a smaller and relatively inferior type of land. It was possible to plan in detail as stated above. It is estimated that consolidation of this type itself was responsible for an increase in agricultural production to the extent of 25 per cent. The benefits of consolidation are thus obvious.

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However, successful implementation of such a programme, requires political will and capacity to plan in detail. Much more control and State initiative, more or less on the model of socialist countries, is required for this purpose.

It will thus be seen that for DRG land reforms essentially imply a comprehensive programme which includes all those institutional and organisational changes and programmes which would enable the small farmer class to participate fully in the technological transformation of agriculture. Improvement in agriculture for him does not have the only goal of increasing marketable surplus; it also has to improve conditions of small farmers. He very often criticized government for concentrating only on marketed surplus which ultimately resulted into directing all resources to big and middling farmers and to certain regions which had potentialities for large and quick returns to investment. When the task of preparing the Fourth Plan fell on him, he revived his earlier stand and criticized the earlier approach to agricultural planning. In the earlier approach, as stated above, maximizing marketed surplus was the main consideration. Therefore there was emphasis on 'intensive development' i.e. concentration of efforts in areas where because of the previous existence of significant socio-economic overheads and earlier investment in intensive agriculture, it appeared that the returns to additional investment would be specially large. This was essentially a short-term view necessitated and justified to a certain
extent by the need to increase agricultural production speedily. But the vast majority of small farmers was left out in this approach and regional inequalities increased. DRG therefore wanted a programme in which not only an increase in agricultural production was taken care of but also a programme through which this large number of small farmers would be given the benefits of new technology and development. And for to attain this goal he saw no other way than organising them in suitable cooperatives so that they would get over the handicap of small size.

It seems however that beyond mentioning this once again at the time of formulation of the Fourth Plan, he could not do much. Realising the limitations and difficulties in cooperativisation of uneconomic holdings he seems to have been forced to consider other schemes viz. SFDA and MFAL. Both these schemes, introduced for the first time in the Fourth Five Year Plan of which DRG was the chief architect are regarded as 'novel innovations' but far from satisfying the original ideas of DRG. They are not cooperative organisations; nor are they based on consolidation of holdings and total village plans. But the schemes sufficiently indicate the concern for the small farmers. The schemes are based on the assumption that small farmers are not likely to be benefited automatically from the general development schemes; they need special assistance and organisational support.

11 SFDA: Small Farmers Development Agencies (SPDAs)
     MFAL: Marginal Farmers and Agricultural Labourers Development Agencies (MFALDAs).
The two schemes, expected to provide this support and guidance were, however, far from being radical or revolutionary. It appears that DRG looked upon these as substitutes to his original ideas. It was a kind of compromise. The performance of the two schemes was not very encouraging. Unfortunately DRG did not live long to make his own assessment of the situation. But he seems to have placed great hopes in the success of the schemes.

 Apart from the above schemes, DRG also tried to rearrange the financial allocations in favour of the organizations of small farmers. He argued forcefully that the public funds should by and large be utilized for small farmers and the landless rural poor. In the earlier approach large slice of funds went into investment the benefits of which went to the big and middling farmers. He now advocated that these farmers should be left mainly on their own. Raising finance for development of their farms should be a function of the private sector farming community itself. He wanted government to take a deliberate decision in this regard. The loan amount advanced through cooperatives should be less and less in the higher classes of holding. If this is done he hoped "outlays in agriculture could then be largely confined to important schemes of applied research, to widened efforts at adaptation, multiplication and demonstration of improved seeds and practices and to outlays needed for programmes of rehabilitation and development of those rural categories and classes, comprehensively termed "weaker
sections.'

The uplift of the small holder may not necessary lie in agriculture. Other allied fields such as Animal Husbandry may have to be explored. DRG makes a pertinent point here. Whether it is agriculture or animal husbandry, the objective is to adopt modern technology for providing an economic base for activities of the small rural operator and for providing such superstructure as may be needed to make such small scale rural operation possible. Public investment and assistance must be exclusively used in this direction; the substantial and middling operators may be left on their own resources.

6. **Gramdan Movement and Agricultural Reorganisation**

The failure of the government to undertake reorganisation programme led DRG to appreciate and encourage the voluntary effort of Vinoba Bhave, whose Bhooland and Gramdan movement opened a new chapter in the history of Indian Land Reforms. DRG welcomed it and described it as "so original in its conception, so novel in its methods and so revolutionary as to its objectives". (Gadgil, 1972, p. 72.) The essence of the movement was an appeal to conscience of the landholders particularly the substantial landholders to part with some of its land for redistribution among landless in the same village. Vinobaji himself favoured holding of the entire land in common

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possession and its cultivation jointly by the entire village community. "All land belongs to God" was his slogan. In practice however he demanded a voluntary surrender of only a part of the land and the new recipients were left free to organise its cultivation in manner they preferred. The movement roused much enthusiasm and the government came out in support of it and passed suitable legislation to formalise the gifts of land in this movement.

We need not go into the details of this movement. We may note here the views of DRG in this connection. DRG was one of the earliest supporters and was also perhaps the best critic of the movement. It is therefore interesting to note his views.

It is generally accepted that Bhoomidan owes its origin to communist activities in Telangana. It was an anti-dote to the communist movement which terrorised the landholders. The Bhoomidan movement attained some success there; some land was donated as a response to an appeal to them and the discontent in the area was arrested. This success inspired Vinobaji to undertake this task at the national level. The fact that DRG welcomed it shows that he did not favour the communist method. Together with this his insistence on cooperativisation of only small holders indicates his opposition to the entire communist way of agricultural organisation.

He defended Bhoomidan movement in a very substantial way, so much so that he may be regarded as a theoretician of the
whole movement. The data that was being collected for the Rural Credit Survey was used by him to show the extent of land hunger among the rural people. Replies to questions asked in the survey regarding their credit needs and the direction in which they would use credit if they obtained it showed that a very large proportion of the credit was required for the purchase of land. (Ibid., p. 75.) Satisfying land hunger was necessary particularly in the context of a static society with no rapid technological change and increasing population. However he realized that Bhoodan was not an ideal solution; in fact he states that the movement leads to the creation of a large number of very small units of farms. This was undesirable; but he defended it on the ground that the alternative for the landless would be "to continue to exist as they do without alternative occupation, without sufficient sustenance and with no hope or zest in life". (Ibid., p. 76.) Even a small piece of land therefore is welcome to him and may bring about considerable improvement in his life. Thus he welcomes Bhoodan only as a method in a desperate situation. This becomes clear when he further states that Bhoodan would not be necessary if a plan of rapid economic development is under way and if 'appropriate land policy' is pursued, the features of appropriate land policy, as discussed earlier, being (1) floor and ceiling to holdings, (2) consolidation of holdings and (3) farming cooperatives. (Ibid., p. 81.) In the absence of such a policy, Bhoodan may produce certain undesirable results. These may be enumerated as follows: First, Bhoodan as stated
above may result in the creation of a large number of very small holdings which cannot be cultivated profitably. These have to be necessarily cultivated cooperatively. Though this was visualised by Vinobaji, he did not compel or even induce the recipients to pool the newly obtained plots. There were of course difficulties in this as the pieces of land were most likely to be widely dispersed. Unless consolidation, as understood by DRG, was undertaken land obtained in Bhooman movement could not be cultivated. Secondly, which is more important from the point of view of village planning, Bhooman ignored the problems of rational layout and utilization of land surface.

Both these aspects were taken into consideration in the Gramdan movement. Gramdan was, therefore, more welcomed by DRG than Bhooman and was not deemed a mere extension of the Bhooman concept. It implies a qualitative change and enables to undertake a rational planning of the entire village economy. While in Bhooman there was an appeal to middling and substantial landholder to part with some of their land out of humanitarian consideration, in Gramdan there was a call for reorganisation of the entire village land. It not only meant communal land ownership, and economic and social equality but also rational layout and utilization of the entire land and village economy according to a certain plan. In Gramdan DRG saw a great opportunity to work out the basic changes in the society, he had in mind. He, therefore, urged the pursuit of the idea to the fullest extent.
DRG conceived gramdan as a unit, where there will be more or less no permanent rights in land for any individual.

This is a point which needs special emphasis. DRG insisted on reducing "the intensity of the sentiment of ownership or possession in relation to land". This he deemed necessary in the interest of reorganization of agricultural production units. He feared that though Bhooman insisted on social ownership of the entire village land, in effect it may strengthen the sentiment of rightful possession; both the donor as well as the recipient would entertain this feeling. The former would feel that, through the gift, he has discharged his social obligation and is therefore now the rightful owner of the land retained. The recipient would also feel that he has obtained rightfully a piece of land. Since it brings social prestige and has economic value he would have strong attachment to it. DRG was, therefore, cautious that once this feeling is strengthened it would be difficult to introduce further reforms. It is clear that he wanted flexibility so that reorganization of landholdings would be easy.

The Gramdan Authority would be similar to Superior Holders exercising its right of redistribution and readjustment constantly as the situation demands. At the same time it accepts the responsibility of looking after permanently the interests of all. The members thus would be similar to tenant-at-will but they will not suffer from the handicaps which are usually associated with tenants-at-will in the past. Further, the
Gramdan Authority would not only organize the cultivation of land suitably but would also affect trading, credit, processing and all other allied activities. Gramdan thus implied a total transformation of the village economy.

Bhoodan and its culmination into Gramdan movement had thus revolutionary potentialities which DRG was quick to grasp. This was moreover a movement started voluntarily without using the instrumentality of State or of any political party. This was the distinguishing feature of the Sarvodaya philosophy; "its 'strategy' is geared to evolve institutional forms for mass power to prevail and to ensure that there is a socially meaningful use of the authority which the state enjoys". 13

The movement brought into being the morally compulsive element in the concept of land-ownership, that possession of land was no longer an uninhibited right and privilege but was contingent on its subserving the interests of the community.

But the movement failed to move forward and where it occurred it failed to give shape to the village economy as implicit in the concept of Gramdan. As Nehru once said there is hardly any country which has such high ideals as India and there is also hardly a country where the gap between ideals and performance is so big as in India. This very well applies to the Bhoodan and Gramdan movements. About one lakh gramdans were secured; i.e. one-sixth of the total number of villages

13 Jay Prakash. Everybody's, April 27, 1975.
in India were brought under this movement. This was no small achievement. However, the movement failed totally in regard to leading these villages to function as self-governing communities. To secure 'Dan Patras' sanction became an end in itself. These targets often assumed greater importance than securing from the village communities a genuine commitment to the ends of Gram Dan. As a result, although the message of Gramdan spread far and wide, it did not effectively alter the social and economic power structure in many of the Gram communities.

DRG did not write anything at a later stage about Bhooman-Gramdan movement. But he was closely studying the developments; he was also holding discussions with the persons involved in the movement. Shri Annasaheb Sahasrabuddhe, one of the stalwarts of the movement, was a great friend of DRG and used to discuss with him the problems arising out of the implementation of Gramdans. It is not difficult to realize how sorely DRG must have been disappointed to witness the failure of the movement which he upheld at the beginning as "so original in its conception, so novel in its methods and so revolutionary as to its objectives".
CHAPTER IV

MARKETABLE SURPLUSES: GENERAL PROBLEM

1. Growth with Stability

Growth with Stability has been an important theme with the objectives of planning, as visualized by him, was to attain progress in all fields with least possible disturbance. This is perhaps the most difficult task not only before India, but before the entire community of backward countries. The task has become more difficult with us because of the acceptance of the democratic set-up in a situation where inequalities - economic and social - are far from being eliminated.

Stability here primarily meant stability of agricultural prices. Since foodgrains constitute the largest single item of expenditure in the budget of the workers and agricultural raw material forms the basis for the development of production, manufacture and trade, any change in agricultural prices affects planning in general. Stabilisation of incomes of producers and demand for all other products is affected. A sharp rise in the prices of foodgrains affects the capacity of workers in non-agricultural sectors to buy non-food items. If, therefore, the prices of foodgrains affect the capacity of workers in non-agricultural sectors to buy non-food items, it is necessary to have a price control mechanism for foodgrains.
agricultural prices are allowed to fluctuate widely and frequently, the nation's economic health is bound to suffer. It distorts production pattern and planners and government find themselves operating without a steering wheel.

A smooth and regular supply of marketable surplus consisting of food and industrial raw materials, at more or less stable prices and on an increasing scale, is therefore the first essential condition of 'growth with stability'. This proved to be a stumbling block in Russia and Stalin in a desperate mood resorted to coercive method. Though this history is well known, it is worthwhile to recall the important points in order to understand in what manner DRG hoped to solve this difficult problem.

Economic development necessarily involves in its process creation of imbalances. Investment in one field disturbs the existing equilibrium and it is expected to be followed up, through forward and backward linkages, by investment and development in other fields. For example, investment in industries in Russia was made on the assumption that through backward linkage, the agricultural industry reacting to increased demand for agricultural inputs in industry would come to release the necessary supplies of foodgrains and industrial raw material either through increase in productivity or out of the existing stock of agricultural produce. It was, however, realized without any loss of time that such linkages are not automatic. One school of thought (associated with the name of Bukharin)
was of the opinion that farmers have to be induced to increase production and part with larger and larger proportion of it. This implied offer of higher prices, if necessary; road should be left open to farmers to become rich through the operation of the market mechanism. This view suffered from certain shortcomings. First it inevitably implied that only a small section of agricultural producers would get a chance to become rich rapidly; this is because not all farmers have substantial surplus for sale. A small number of them only possesses the marketable surplus needed by the urban people. It is true that higher prices may induce farmers to increase production and sell it in the market. But there are natural limitations on efforts to increase production. Therefore, unlike in industry, higher prices do not necessarily succeed in increasing production beyond a certain limit. Further, it amounts to keeping the programme of industrial expansion at the mercy of producers in the agricultural sector. Stability thus may be jeopardized. The other school (led by Preobrazhensky) held the view that industrialisation must proceed at the cost of the agricultural sector. The terms of trade must be turned against the agriculturists by compelling them to sell cheap and buy dear. But Preobrazhensky like Bukharin was opposed to the use of force against peasantry. This exactly constituted the weakness of this line of thought; if the prices are kept low, it may affect production and may dissuade farmers from making investment in agriculture. They may prefer to consume more food themselves or to feed their animals rather
than sell it to the urban consumers or government at a cheaper price.

Stalin solved this problem by resorting to force. The collectivisation drive was a part of this coercive method. Through this, he removed the stumbling block, ensured stability and the development process was set afoot.

Stalin succeeded in increasing the marketable surplus but not necessarily total agricultural output. That was the weakness of his method; but it mattered less at least in the initial stages. Later, even output increase could be taken care of through the collectives.

Problem before the Indian planners was the same. Economic development programme required smooth and regular supply of marketable surplus on an ever increasing scale. The problem in India was still more difficult. In the first place, the democratic set-up ruled out coercive measures of extracting larger surplus from the agriculturists. Agriculturists had to be offered incentive prices and assistance of all kinds to increase production. Secondly Indian farmers' community consisted predominantly of small and marginal farmers who had only a little surplus to sell in the market and who were pursuing agriculture as a way of life rather than as a commercial activity. Further, production at the aggregate level was not adequate, at least in the initial years of independence, to meet the needs of the teeming millions; there were besides all kinds of difficulties arising out of the general under-develop-
ment such as lack of transport, roads, communication etc. In the context of this the problem of getting marketable surplus enough even to launch development programme was a very difficult task.

2. **Prof. Gadgil's Views on Procurement of Marketable Surplus**

At the outset, it may be useful to state that DRG's views relating to the subject have undergone change over the period 1950 to 1970. We see three stages in the development of his thought. In the first stage, that is prior to and around 1960, he held the view that government should procure marketable surplus, in order to build up stocks, by competing with the private traders. He did not favour any restrictions on private traders' activities; he did not even advocate subsidized distribution. All that he thought adequate was the establishment of centres to purchase and sell the foodgrains and he thought it feasible with the help of floor and ceiling prices.

In the second stage, i.e. on the eve of the Foodgrains Policy Committee Report in 1966, he realized the need to define the extent to which private trader should be allowed to operate. He advocated some control but not total elimination of private trade. Licensing and restrictions on the movement of foodgrains by licence-holders were the two measures he advocated. He opined that movement by rail and coastal shipping should be denied to private traders.

In the third stage, which came after 1966, he advocated complete socialization of trade. He came to be convinced by
this time that purchase in the open market, side by side of trader is impossible.

In the following sections we deal with each of these stages.

3. **DRG's Scheme to Get Marketable Surplus: Position in 1960**

There was no doubt in his mind at any stage that the Government has to step in, in order to ensure a smooth supply of marketable surplus. But he did not approve of the Stalinist method. The problem appeared to him 'difficult' but not impossible; he agreed that purchase and/or procurement was essential but he was of the opinion that it has to take place through "some sort of market mechanism". (Gadgil, 1972, p.250.) He thus rules out collectivisation, and compulsory deliveries to the government. "The central problem", according to him, "is that of putting into the field an effective system through which purchases of agricultural produce are made as to keep the variations in their prices within a given margin." (Ibid., p. 250.) Thus there is first the floor price and second, the ceiling price. So far as the floor price is concerned, DRG thought, the matter is not so difficult. By offering to buy agricultural produce at a price decided in advance, a fall in prices beyond a certain limit, can be arrested. "Given administrative, purchase and storage arrangements scattered enough throughout the country to provide an effective alternative purchaser to every producer who has otherwise to sell to the local trader, floor prices can always be made effective." (Ibid.,
But the matter is not so simple, according to him, in regard to the ceiling prices. The objective of having ceiling prices is to check price-rise beyond the level at which ceiling prices are fixed. This operates in the following way. When prices in the open market start rising beyond a certain level the government releases the stocks which are in its possession. This means that government enters into the market and competes with the traders in the interest of consumers. It starts selling its stock through fair-price shops in a systematic way. The consumer naturally prefers the offer of the government. The trader therefore has no alternative than to sell his stock at a price at which government is selling.

The difficulty in the operation is that in order to compete successfully with the trader the government must have adequate stock. Without building up adequate stock government will not be able to implement ceiling prices effectively. And there are serious difficulties in building large stocks of foodgrains by government. "If prices begin to increase steadily and the private trader looks forward to a continuous price-rise, it may well happen that at a level of prices fixed by government, government may obtain no supply whatever." (Ibid., p. 250.) A government operating with a set of standard purchase-prices, will not obtain supplies so long as the price at retail is such, or expected to be such, as to leave a comfortable margin to the wholesaler at prices above the level of government standard prices. "Therefore, in the ultimate analysis, unless
government is able to check, in some way or the other, the upward movements of prices at the retail level, its operations will be ineffective." (Ibid., p. 250.) This, in fact, constitutes the crux of the problem. DRO, however, does not deem it as too difficult a problem. "The only way in which government can check prices at retail level, is by offering, through a number of retail outlets, a sufficient supply at reasonable prices." (Ibid., p. 250.) If the government offers a reasonable price, he contends, "the wholesaler would not make an artificially increased bid to the producer; if then the government fixes its purchase-prices at a fair level it would obtain adequate supplies." (Ibid., p. 250.)

The main problem however still remains: how to get supplies when the prices are steadily rising? DRO hopes that this is possible if two conditions are satisfied. First, the Government's operations must be countrywide and continuous over a period of time. Second, the price must be standardized. This system would help according to him in the following manner. "Whereas in certain locations and at times when the costs of transport, of stocking and carrying over time are low, private traders may be able to outbid government, in other locations and at other times they would not be in a position to do so. Therefore, government would, at a given price, obtain continuous supplies of the crop, especially in those areas where, and at times when, producers find themselves at a disadvantage." (Ibid., pp. 250-251.)
A perfect arrangement to have retail outlets well spread out, especially in relation to the strategic high price markets, is of crucial importance in arresting the price-rise. It is necessary to make such arrangements known to the traders "to be so complete and continuous that they will not think it possible to create an artificial scarcity at any time later. It is only the possibility of increasing retail prices some months after the harvest, which can induce the wholesaler to attempt to outbid government." (Ibid., p. 252.)

Thus, in short, if the retail price is held in check and if the price offered to the agriculturist is a standard price, which is fair enough, government would be able to acquire adequate stocks and use the same to ensure stability. Government would be successful even from the first year of its operation. The readiness and capacity of the government to continue to buy on any scale at a standard price, even if the government stocks are more than adequate, is the keynote of DRG's argument. This would enable the government to keep the margin between procurement prices and the prices of sale at retail limited; this is the crux of the problem as he sees it. It may be emphasized, even at the risk of repetition, that DRG is not making a plea for compulsory procurement at least in his early stand. Levy or monopoly procurement is not even mentioned. To start with, he even prefers the imported stock of wheat under PL 480. He welcomes it without hesitation as he thinks that it would enable the government to break through the vicious circle. (Ibid., p. 251.) Of course he does not welcome it on a long
term or permanent basis. Once the initial hurdle is overcome, the government is to compete with traders in a free market. It will be one among many traders; the only distinction is that while the traders work for their personal gain, mainly at the cost of both consumer and producer, the government works for the benefit of both the consumer and the producer.

This was the position of DRO on this issue in August 1960; the year he thought was favourable to push the scheme effectively. A large influx of wheat supplies was expected to set the downward movement of wheat prices at the commencement of the harvest. The same he expected about prices of rice. In this situation, he thought, if the government offers standard price, it would be able to buy more than enough. Apart from improving the position of government supplies, farmer will also acquire "a much needed confidence in relation to government policy". (Ibid., p. 252.)

In fact he thought the situation in 1960 was very ripe for establishing the mechanism; as he saw it, the situation was such that there was "no dilemma of either having no control or accepting a full-system of compulsory procurement". (Ibid., p. 258.) The position of wheat stocks was favourable and with a little extra effort to procure in the open market, there would be no problem. As regards rice, he urged that government should obtain maximum quantities from the U.S. or other countries, and of course try to buy in internal market.
4. Weaknesses of the Scheme

There were certain inherent weaknesses in the above system which later made DRG to modify and finally abandon his belief in government's operations in a free market. We will consider both the logical follow up of the above line of thought, as well as the actual developments in the field in order to understand his final position in this regard.

It is obvious that DRG discarded the Preobrashensky school according to which the process of economic development can take a start only at the cost of agriculture. His repeated emphasis on fair and remunerative price makes it very clear. What he calls standard price is also an incentive price. With this price together with the retail prices in check, he sees "no reason why government purchases should not be very successful."

This is however a very simplistic view. A much deeper thinking is necessary as a number of questions automatically arise. What DRG calls standard price is also the support price, which he also wants to serve as incentive price because in his view a fair remuneration must be offered to the producer. What should be the level of this price? What would be the consequences on the procurement programme of high and low procurement prices? What should be the size of the stock the government should attempt to maintain in order to discharge its obligation during the period of price-rise? What should be the ceiling
price? Can a poor consumer afford it? In that case, what
should be the policy of the government? These and similar
questions crop up once we start working out a scheme of procure-
ment and maintaining buffer stocks.

As Dandekar1 points out, the problem will have to be con-
sidered in two phases: the short-term and the long-term. In
the short-run the costs or inputs that are incurred by the
producer are given; the output, however, is dependent upon the
fortuitous circumstances like weather. A large fluctuation in
output and prices affect producers' income. During the short-
run, and in a free market the price is determined by the size
of harvest and price-elasticities of consumer demand. Because
of generally low price elasticities of demand for foodgrains,
it needs a disproportionately large rise in price in order to
restrict the demand to a somewhat smaller harvest; and it
needs a disproportionately large fall in price, to expand demand
to a somewhat large harvest. The market price of foodgrains
is thus liable to large fluctuations from year to year, firstly
because of the fluctuations in the size of the harvest and
secondly because of the generally low price elasticities of
demand for foodgrains.

The producers therefore require support price and if
possible appropriate credit and insurance policies in order to

1 V. H. Dandekar, "Minimum Support Prices for Foodgrains:
Guidelines for a Policy and a Programme," Artha Vijnana,
stabilise their incomes. The consumer requires ceiling prices at a level beyond which they will not be able to buy food and meet their essential needs. It is for this reason Bandekar states that maximum ceiling price is a necessary corollary to a minimum support price. In the short-run the objective should be to reduce the range within which the market price may fluctuate. The essential condition of price-support under short-term considerations is that the agency responsible for operating the support programme should be able to sell, over a period of years, all the stocks it acquires at the support price, at prices not below the support price. "If the condition is satisfied, it indeed means that over a period of years, the programme does not give any price support over and above what the market offers. Its operative purpose is merely to equalise the supplies and consequently also the prices over the years. It creates an agency to undertake the operations necessary to equalise the supplies over the years. The agency may use prices as indicators of quantities coming to the market and withdraw or reimburse the supplies as occasion demands. But the resulting prices on the market are such as the market determines them. It still is a free market and the programme is a part of it. It offers no price support over and above the market price." 2

The long-term considerations are however different. Here the objective is to offer incentive to farmers to expand production, with probably the new kinds of inputs and intensive method

2 Ibid., p. 277.
of cultivation. This is possible. If the producer therefore wants to undertake expansion programme, he must be assured of prices at a level which would not only cover the new costs but also would leave sufficient profits. The support price in this case would have to be an incentive price in a real sense. It would be higher. In the absence of high support prices, the producer would be ruined if increased production would bring down market prices quite considerably. Producer therefore needs an assurance against this eventuality. Thus he needs an assurance first that the agency would buy whatever supplies are offered at the minimum support price and second the support price, required to meet the long-term considerations, will have to be higher than the one needed under the short-term considerations.

Buying under these conditions means that the stocks acquired would be quite large, so much so that it may be impossible to dispose them of unless the sale prices are kept low so as to enable the poor consumer to buy their quota of foodgrains. The sale price therefore would be below the purchase price. It is well known that in the present situation, a class of consumers exists/would be unable to buy all its foodgrains requirements at the support prices. Thus accumulated stocks in the hands of the public marketing agency and unsatisfied demand of a class of consumers would be found side by side. An obvious solution therefore is to distribute the acquired stocks at subsidized prices that is at prices below the support price but taking due care that such subsidized distribution does not
depress the market price below the support price.\textsuperscript{3}

Thus subsidized distribution is a 'necessary corollary' of a long-term price support. Because "all the supplies which may be forthcoming at high support prices may not be taken up by the consumers, even when they are needed."\textsuperscript{4} This problem can be solved by more equal distribution of incomes and by programmes aimed at levelling up of incomes of persons in the low income class of consumers. Till this is not done, a better distribution of the incomes at the lowest level must be brought about through subsidized distribution of food.

\textbf{DRC} does not seem to attach much importance to the details which logically follow the line of his thinking. It also appears that subsidized distribution of food has not found much favour with him. This becomes evident, as we will see, after he accepted the Deputy Chairmanship of the Planning Commission.

We may point out one weakness in the above analysis. Both \textbf{DRC} and Dandekar seem to assume that farmers would prefer to sell their produce to the government agency if the procurement price offered is higher than the one offered by traders in the market. This assumption is theoretically correct. However, in practice, we often find that producers take their produce to traders even though they are aware of the fact that government support price is higher. There are several reasons for it. In

\textsuperscript{3} Ibid., p. 280.

\textsuperscript{4} Ibid., p. 280.
the first place, there is a large number of farmers who have long standing relations with traders. They receive timely assistance - financial and other - which keep them bound to their traders. This obligation makes them deliver their marketable surplus to these traders, whatever is the price offered by government agency. Secondly, the traders have very flexible way of operating in the market. They can offer to buy the goods at the door of the farmer. This is very convenient for the producer. As is well known the roads, transport means are not well developed in the rural areas; consequently it is not easy for the producer to go to the government agency to sell his produce. This is particularly so where the amount of foodgrains to be sold is small. Taking a small amount of foodgrains to a distant place, where government agency is located, involves some cost and a lot of inconvenience. The support price, therefore, loses much of its significance, at least in the case of small and middle size farmers. What is, therefore, necessary is first to establish procurement centres at each and every village and second, to take all measures to see that the trader-cum-moneylender really becomes redundant. These measures certainly include high support price and establishment of procurement centres at every village; but in addition these measures should also include easy and substantial credit facilities and other services in respect of which the private trader is still having an edge over the government and cooperative agencies.

Another factor in this connection relates to the different
kinds of reactions of farmers to incentive prices. In a
country like India where small farming is the rule, high prices
do not necessarily induce farmers to bring more produce to the
market. As we have seen, as DRG has emphasized time and again,
the number of small farmers is predominantly large. All these
farmers, who may be described as subsistence farmers, expect
from their farms food for self-consumption mainly. A part of
the produce is sold, not because there is really a surplus, but
because it has to be sold in order to get some minimum cash
which is essential for buying other essential goods like edible
oil, kerosene, some cloth etc. In view of this situation, the
normal mechanism of incentives does not operate. In an interest-
ing study, Mathur and Ezekiel, 5 have very forcefully pointed
out that the farmers' cash requirements are nearly fixed and
given the price level the marketed portion of output is deter-
mined. This implies that the farmer's own consumption is a
residual and that the marketable surplus is inversely propor-
tional to the price level. This conclusion however applies to
mainly the small or subsistence farmers. It is not applicable
to large holders. Small farmers being numerically in majority,
their reactions, as pointed out by Mathur and Ezekiel, have to
be taken into consideration in the analysis of this kind. DRG
has constantly drawn attention to the problem of small and
marginal farmers and suggested consolidation and cooperativization

5 P.N. Mathur and H. Ezekiel, "Marketable Surplus of Food
and Price Fluctuations in a Developing Economy," Kyklos, 1961,
pp. 316-406.
as a means to improve their capacity to produce more. Only when this is implemented, the discussion about support and incentive prices becomes relevant and only then one can hope to get larger marketable surplus from this section.

5. **Developments during the Period between the Two Committee Reports - 1957 and 1966**

In fact, there was nothing new in what DRG advocated. That the government should play an active and dominant role to ensure a smooth and expanding supply of marketable surplus from agriculture was hardly in dispute. Right from the beginning price-policy has been regarded as an important instrument for this purpose. As early as in 1957 the Food Grains Enquiry Committee studied the problem comprehensively and urged the importance of securing a commanding position by the government in the foodgrains market. Next major committee in the line was the Foodgrains Policy Committee which submitted its report in 1966. The latter had DRG as its important member. Much water flowed during the period between the two reports and naturally the recommendations of the latter were of far-reaching consequences; they revealed a substantial change in the thinking of DRG also. It may be worthwhile to note in brief the events which took place during almost a decade between the two reports, before we note this change in detail.

Though the Foodgrains Enquiry Committee (1957) made comprehensive recommendations as to how the government should operate in the foodgrains market, it was only in the concluding
years of the Third Five Year Plan period that a coherent policy came into existence. In January 1965, Agricultural Price Committee (APC) came to be established to advise the government and evolve a rational price structure. At about the same time, Food Corporation of India was established to act as the principal agency for making purchases. The APC laid down as its objective to evolve "a price structure which will ensure an appropriate inter-state, inter-grain and inter-seasonal parities consistent with overall goals of national development".

The experience till the end of the Third Plan period, however, was not very encouraging; it revealed serious limitations regarding the abilities and willingness of the government to pursue the policy on the lines recommended by the Foodgrains Enquiry Committee (1957), as well as the practical difficulties relating to the operations in the free market. Some of the facts may be noted in this connection.

The role of the government in the foodgrains market increased as is evident from the number of ration/fair price shops, quantity of foodgrains distributed etc. "The number of ration/fair price shops increased by about 350 per cent during the period 1960 to 1968 indicating the growing coverage of area and population. The quantity distributed increased by more than 450 per cent during 1961 to 1966. Percentage of public distribution of foodgrains to total availability increased from 5.3 in 1961 to 19.9 in 1970 (i.e. equivalent to net production + net imports + change in government stocks). The
percentage of public distribution to market availability increased from 20 to 30 during 1960-70, having gone up to 40 in 1965-66 and to 50 in 1966-67. 6

Though prima facie the performance appears impressive, it is necessary to examine it further in order to find out the real significance of this. Madalgi points out that the real significance can be understood if we examine the volume of foodgrains issued through public distribution system to total supplies marketed. According to his estimates during each year from 1960 to 1964, government operations accounted for about one-fifth of the total supplies marketed; this proportion rose to about one-third in 1965, to about two-fifths in 1966 and to about one-half in 1967. 7 Thereafter, again, it declined and was about 30 per cent in 1970-71. 8

Madalgi further writes: "While this achievement by the government is by no means insignificant, its limitations need to be noted. The bulk of these operations was achieved by import of foodgrains from abroad. For instance, except during 1967 and 1968, during each of the years from 1961 to 1966, the proportion of imports to total issues of foodgrains by the government was between 72 per cent and 90 per cent. Only during

1967 and 1968 has this proportion come down to two-thirds and one-half respectively. 9

Raj Krishna examines government operations much more thoroughly. 10 According to him, government sales have met only 8 to 9 per cent of the total demand for foodgrains during the First and Third Plan periods. In the Second Plan period it met only 6 per cent of the demand. Thus the objective of providing price-relief to low-income groups has been realized only to an insignificant extent. Even a very conservative estimate of low-income demand, according to him, cannot be less than 20 per cent of the total.

Ratio of government purchases to domestic output is the most significant indicator according to Raj Krishna. It was 3.6 per cent in the First Plan period, 1.1 per cent in the Second and 1.8 per cent in the Third. Assuming that the marketed surplus ratio is 30 per cent, Raj Krishna infers that not more than 12 per cent of the marketed surplus was acquired in the First Plan period; the proportion comes to 1.5 and 6.0 per cent in the Second and Third Plan periods respectively. This indicates the extent of "socialization of grain surplus".

In a forthright manner, he concludes: "Performance has been poorer than promise in every respect. The growth of

average consumption has not been stabilised. Imports have not
been minimised. The marketed surplus has not been socialised.
And the daridra-narayan has not been identified and regularly
provided his minimum supplies."


This experience compelled DRG and others to abandon their
faith in operating in the open market and adopt a position of
scrapping the market or at least severely restricting it. It
is, however, necessary to emphasize that the above state of
affairs can be the result of either of the two following
factors: (1) unwillingness or incompetence of the government
to do its best to procure or (2) inherent weakness of the dual
market system. In India, in fact, both sets of factors were
influential and DRG shows awareness of both these. DRG’s
changed position becomes evident from his own individual
writings as well as from the report of the Foodgrains Policy
Committee of 1966 of which he was a member.

However, till the appointment of the Foodgrains Policy
Committee in 1966, he continued to believe in the possibility
of procuring foodgrains in the open market. In August 1964
he writes that, of the three sources of supply to government
vis. (1) imports, (2) local purchases, and (3) requisitioning,
the aim of the government policy should be mainly to rely on
(2) and to diminish dependence on (1) and (3). However by

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11 DRG, "Needed a National Price Strategy," Maharatta,
Annual Number, 1964.
this time he had realized the need 'to define the extent to which private trader will be allowed to operate'.

12 Licensing and restrictions on the movement of the foodgrains by licence-holders were the obvious ways of regulating the trade and the government by that time had already introduced these regulations. While appreciating this aspect of government policy, DRG made an important observation that "fundamentally without a minimum of direct government operations, to provide a cross-check, a licensing system and periodic returns afford little substantial information on which to operate".

13 The government must enter the market, he opined, on a substantial scale not only to procure foodgrains but also to make regulation of private trade effective. Apart from these regulations, he suggested restrictions on their movement. Specifically he states that movement by rail and coastal shipping should be denied to private traders.

14 Once the private trader is subjected to these minimum regulation, he was of the opinion that government could buy adequate stocks. The first step was to fix the purchase and retail prices. DRG recommended a standard price which is profitable to the cultivator and also within the reach of the consumer.


13 Ibid.

14 Ibid.
Two stages for price fixation were visualised. First at the national level, the government should determine the broad levels of purchase and retail prices. On the assumption that there will be no zones, the Government of India should also determine the permissible margin of difference between the levels of purchase price as between State and State. Next, on the basis of these broad levels, each State should be asked to work out the detailed notification regarding purchase and retail prices. These notifications must be very elaborate. For example, the purchase price notification should have as their base each district or region for a given crop. Within the limits prescribed by the Government of India, the State should define for each district or region, the fixed purchase price for each kind of the foodgrain and for each recognised quality and grade within it. This kind of elaboration was deemed necessary because it was the experience that "without detailed specification and price description and in the absence of grading arrangements price fixation can be easily reduced to a farce by the trader". 

The next stage was to establish numerous centres in order to buy foodgrains from the cultivators and build up adequate stocks. The maintenance of standard price is possible only if the purchase points are numerous. All cultivators, particularly the small ones, should have the government purchasing centre near to them so that instead of taking their produce to

15 Ibid.
the private trader, they would take it to the government
centre. DCG suggested that minimum 40 to 50 centres are nece-
ssary for each district. These centres, he further insisted,
should be managed by the cooperatives. He opposed the centres,
established and managed by the all-India Corporation (then
proposed). He preferred cooperatives to the Corporation,
mainly because procurement was a responsibility of the State
government and cooperatives could be used by State government
for this purpose. An all-India Corporation would not be in a
position to establish numerous centres on the required scale
and consequently it would rely more on a few centres or a few
traders or on imports. Under such arrangement, he thought, the
cultivators would not derive any benefit of the standard price,
- an important aspect of the government policy.

Another important objective of government policy is to
attain adjustment of supplies as between the deficit and surplus
States. This can be done only if fairly uniform systems of
purchase and distribution are operative within each State -
both surplus and deficit States. "If there is no systematic
purchases planned in districts of the surplus States and if
there is no fixation of prices at retail, the operations of the
trader within the surplus State cannot be put under control
and the Corporation will find it difficult to make its purchases
except at constantly increasing prices. On the other hand, if
there are no planned systems of purchase and sale within the
deficit States, the deficit States could, at any time, find
themselves in a crisis and would be making constantly increasing demands on the Centre for supplies.16

Thus a large number of sale and purchase centres, evenly spread out in all districts of the country, constitutes an essential condition of the successful government operations. And this can be done effectively by State government through the cooperatives rather than by an all-India Corporation.

The framework is not yet complete. Because the basic problem still remains, which can be stated as follows: controlling the retail prices, which is the main part of the stabilisation programme, is possible only if the government has adequate stocks with them; and this in turn depends on whether government can get adequate stock through competing in the open market. In the open market, the private trader can always outbid the government so long as there is a possibility of selling foodgrains at increasing prices. This possibility will be there if they strive hard to outbid the government while purchasing the foodgrains. How can the government machinery get a start in these circumstances? DRC does not appear to consider this question. But often he seems to rely on co-operative organisations of the cultivators. The whole procurement arrangement according to him should be based on an elaborate cooperative marketing and processing organisations. The farmers would operate through these cooperatives and the

16 Ibid.
cooperatives in turn would be induced to deliver the produce to the government agencies in preference to private traders. Thus establishment of a large network of cooperative organizations is according to him the precondition of the successful government procurement programme. A network of marketing cooperative means minimizing the number of points through which the produce is routed. Once the channels are minimised, the government can, through all kinds of inducements and moral pressure, get adequate stocks. Then alone the government can compete successfully with the private traders.

Where processing is essential, it is even more a sure way of routing agricultural supplies through a small number of points. All producers in such a case seek processing facilities and if they do not exist in a cooperative sector, they take their produce to the local trader. Cooperative processing units are thus required not only to enable the supplies to be concentrated at a few convenient points but also to enable cultivators to obtain full advantage of the standard prices.

"From the point of view of government policy, the importance of cooperative processing units lies in the large decrease in leakages and evasion that will result from dealing with properly conducted, audited and supervised cooperative societies. Therefore, in the long run, for operating government policy in relation to agricultural prices and other kindred matters, government must organise farmers in a countrywide network for cooperative marketing and processing of all agri-
cultural produce." (Gadgil, 1972, p. 255.)

The role of processing being of crucial importance, DRG even advocated immediate transfer of the existing units to the public or semi-public sector. Immediate cooperativisation being difficult they should be taken over by the State governments "as a preliminary to handing them over to the cooperatives". (Ibid., p. 256.) Rice mills and oil expellers were specially mentioned for immediate take over.

On the side of distribution also DRG preferred as a long term objective, the establishment of cooperative agencies in place of fair price shops. In the urban centres, he believed, consumers cooperatives can be established relatively easily and are also more urgently required than in rural centres. Such consumer cooperative can deal not only with foodgrains but also with other important items such as sugar, salt, kerosene, cloth and edible oil i.e. all those commodities which compose the basket of an average consumer. Unless prices of these items are also controlled, the stabilisation programme does not become meaningful. However, there is no need, according to him, of replacing the fair price shops at least immediately.

"Without disturbing this system, government should actively encourage the establishment and growth of a strong cooperative consumers movement and should look to it progressively as the agency through which government would be able to tackle the problem of distribution." (Ibid., p. 256.)

In regard to the rural area, the time according to him,
is not yet ripe for a strong consumer cooperative movement (i.e. around 1960 when he wrote the article referred to above). Therefore fair price shops would continue to be mainstay of the distribution system; it would be supplemented by the stores to be attached to primary multipurpose societies.

Since we are dealing with the cooperative organizations in Section III, we will not go into the merits of the case here. The views of DRC, expressed here may be regarded as representing the second stage in the development of his thought in this field. We now pass on to the third stage, where we find he becomes more skeptical about the method of procuring marketable surplus in the open market. This stage begins with the report of the Foodgrains Committee, 1966, of which he was an important member.

7. **Foodgrains Committee 1966 and Onwards: Third Stage**

After taking a review of the performance of government policy, the Committee came to the conclusion that "it is unavoidable that Government should be in charge of the overall management of food."

17 The experience of procuring food supplies in the open market was very clear. "When government enters the foodgrains market as a buyer in competition with private traders, the latter will push the prices up in order to command sufficient stocks so that they can continue to remain in business. Moreover, it has to be remembered that

purchase operations by a single large buyer tend to raise prices much more than by a large number of small buyers. Government's purchase prices are likely to turn out to be so high that neither the objective of holding the price line, nor that of equitable distribution to all, including the low income groups, can be expected to be achieved. ... We see no way by which the State can obtain the necessary supplies - consistent with price objectives and financial requirements - without the imposition of restrictions on private trade, especially interstate trade. 18

The most important recommendation made by the Committee was a 'minimum graded levy on the producer as a part of the national food policy'. The Report states: "Whatever the other aspects of such systems - and these may vary from State to State - one common feature for all States seems to us both necessary and desirable: a direct levy, however small, on the producer. This would not only be potentially important - some States may make it the main plank of their procurement - but would emphasize the all-India nature of the effort needed to augment the supplies at the disposal of their State Governments or the Central Pool." 19

The Committee made a distinction between procurement price and support price. The latter has to be higher than the

18 Ibid., p. 37.
19 Ibid., p. 39.
former. The reason is obvious. Since the government is to compel the producer to part with some of his stock at the procurement price, the support price has to be at that level which would encourage the expansion of food production; otherwise the producer may switch on to other crops not subject to levy. To fix such a price is not an easy task; because such a price has not only to consider producers' point of view but also the consumers' interest and since the Committee ruled out subsidization, fixing the procurement price became an extremely complicated task.

The Committee further made four recommendations in order to make the system effective. First, the announcement of prices should be made well before the sowing season, so that farmers can decide their production plans; second, in order that the guaranteed minimum support price may help in creating a favourable climate for long term investments by producers, the guarantee should be for a long enough period, say, at least for three years; third, government should give wide publicity to the minimum support price and to the fact that it will be prepared to purchase all the quantities offered to it at these prices; and finally, adequate arrangements should be made at important primary markets for making purchases at the support price, whenever the need arises.

While most of these recommendations are important from the operational point of view, the one viz. the third, urges the government to make an important commitment to undertake the
responsibility of purchasing the supplies without any limit.

Consistent with his commitment to the Report of the Foodgrains Policy Committee (1966) DRG in all his writings at about the same time, not only advocates the same arguments but advocates it with a great deal of emphasis. In an article which was a sort of sharp reaction to the comments of the then Food Minister, Shri Subramaniam, who criticized the Government of Maharashtra, for launching monopoly procurement, DRG states that the State can adopt the approach of regulated distribution only if it directly controls supplies. "The more fully it controls, the more completely can it distribute equitably. Full control means obtaining the entire marketable surplus directly from the producer and completely regulating its flow until it is issued in a measured way to the consumer through the fair price shops. To the extent to which any private interest intervenes at any stage of this process the risk of leakage is incurred; thereby the deficit is increased and risks of a price-rise and of inequitable distribution enhanced." 20

Even from the point of view of price, he comes to the same conclusion. "The double aim of an incentive price to the producer and an equitable price to the consumer can be fulfilled only if the costs of intermediate handling are kept as low as possible and if no fluctuations in prices are allowed to take

place because of variations in supply in space and over time. Both these conditions can be fulfilled only under socialised trade i.e. when a socially responsible organisation purchases directly from the producer and all stages upto the consumer are similarly managed. 21

Adding emphasis he states, "purchase in the open market side by side of trader is ruled out, almost by definition". 22

Such a food management was deemed necessary by him for a long time to come. It was absolutely necessary so long as the Indian economy continues to be the shortage economy; but even perhaps after it ceases to be so. Attainment of self-sufficiency and surplus production was a distant goal then, though the new technology had just made its arrival. DHR was however quite realistic about the new technology. "Attaining self-sufficiency even with HYV in less than five years is improbable" 23 he stated. Therefore, management of available supplies according to him acquires supreme importance in the economic planning. "Even after food self-sufficiency is just attained the precarious equilibrium could be maintained only by continued active management." 24 The policy may be radically changed only after large surplus starts accumulating as in the U.S.A. Nobody, including DHR, visualised such a situation in the near future.

21 Ibid.
22 Ibid.
23 Ibid.
24 Ibid.
8. **Political Factors and Procurement Price Policy**

As stated earlier, apart from the inherent weakness of the dual market system, there were other factors - political in character - which affect government's efforts to operate in the open market. DRC refers to them time and again in a general way; he does not discuss these factors directly in connection with procurement efforts but deals with them in general while discussing the entire planning process. It may be, however, worthwhile to note the relationship between the political process and the food policy of government.

An economy, characterized by chronic shortages, allowing free market to exist side by side with the scheme for procurement, has to face serious difficulties. As is clear from the above discussion, the crucial relevant distinction is between procurement price and free market price. With no element of compulsion (say in the form of levy) the procurement price tends to bring an upward pressure on free market price. This race becomes accentuated particularly when the ruling party is influenced by the interests of large farmers and traders who are either in alliance with each other or are one and the same; for them the government price (i.e. the procurement price) becomes a handy instrument to raise the market price. The hold of this class on decision-making process has been commented upon by many. Sethi, for example, points out that it is more or less impossible to induce the farmer to part with his marketable surplus at reasonable prices so long as the party's main
support is institutionalized in those very castes and groups whose main interest is to use procurement price for enhancing market price. As pointed out by him, there is a fundamental contradiction between the policies of the ruling party and the interests of its support structure. At and below the State level the party is dominated by large and medium farmers and traders. 'In fact this makes nonsense of any system that we can think of.'

For example, Dandekar recommended a system of establishing District Marketing Boards to avoid (1) bureaucratic bungling and corruption, (2) to meet the challenge of alliance between farmer-trader, and (3) to provide alternative to the dubious dual price system. In the existing context of power structure, Sethi rightly points out, the ruling elite and the local power structure will not permit the election of such boards for two reasons; first, as the dual system works to the advantage of big farmers, the boards will restrict their scope and second, the boards will replace the nexus between traders and farmers.

The pressure of the support structure has been increasingly felt since the establishment of the A.P.C. and DRG had to face it in this or that capacity since then. There was a

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constant pressure through the Chief Ministers to raise the procurement price and the A.P.C. was fighting vainly against it. The A.P.C. (1967-68) made it clear that in an inflationary situation an increase in the procurement price has the effect of pushing up the market prices; the Chief Ministers however favoured it. Both Dantwala who was then heading the A.P.C. and DRG who joined the Planning Commission in September 1967 resisted the pressure coming from Chief Ministers. DRG categorically stated in the Chief Ministers' meeting that "the increase in prices made during the course of the last year (1966-67) should not be maintained." 27 The Chief Ministers did not agree and in their usual way of by-passing the issue appointed a sub-committee, with DRG as a member. Again DRG stated emphatically, "We have already reached the brink and more playing with food prices would make the task of economic recovery in the near future almost impossible." 28 In spite of this the Chief Ministers raised the prices which were higher, taking the country as a whole than (1) procurement prices at the beginning of 1966-67 by 14 to 17 per cent and (2) procurement prices as recommended by the A.P.C. by 12 to 15 per cent.

A.P.C.'s advice that levy should be treated as the principal instrument of procurement, was also more or less completely ignored.

28 Ibid.
From all this experience DRC concluded that there is a total absence of national policy. The Centre and the States are pulling in different directions and the latter are succeeding in thwarting efforts to impose a national discipline. There was large evidence of this and it may be worthwhile to cite a few instances. 29 One relates to the experience relating to the single State zones and the other to the devices evolved by the State governments to push up procurement prices.

When the single State zones were introduced in 1964, the basic objective was to carden off the surplus States and to channelize the surplus through State agencies. Maximum efforts to make internal procurement both in the surplus and deficit States was an essential condition for its success. In fact, however, there was an increasing tendency to minimize surpluses and maximize deficits on the part of the State governments.

The subtle devices resorted to by the State governments to push up procurement prices were much more alarming. Dantwala 30 gives one illustration of the same. The A.P.C. and the government used to lay down the procurement price only for the common or standard variety and leave it to the State governments to fix margin for the superior varieties. An expert committee under the chairmanship of K. Ramiah, which examined the question of classification of rice varieties, had suggested that the

29 Ibid.
30 Ibid.
price differential between rice varieties of different groups should not be in excess of Rs. 5 per quintal. But taking advantage of the option given by the Union Government to fix differentials, several State governments conveniently widened the differentials. Thus the Government of Gujarat, while fixing the price for the common variety at Rs. 55 per quintal, fixed the price of 'Hawabi Kolam' and 'Pankhali' at Rs. 76 and Rs. 91 per quintal respectively. No wonder if Dantwala despairingly realized the "growing irrelevance of economics in planning" and DRC found a total lack of national policy. DRC writes: "In the absence of national policy, management becomes the responsibility of each State and there is large variation in the size and urgency of the problem and correspondingly in the measures undertaken. The absence of national policy today is largely owing to the Government of India's attitude of attempting the least possible and continuing with any effort for the shortest possible time; national food policy, could, however, be successful only if framed comprehensively and pursued consistently over a series of years."31

There was another point DRC was stressing and that was concerning the relative prices. Fixing of one or two prices was not effective according to him; prices of the whole range of commodities had to be thought of. Just as dual price system cannot work in a shortage economy, similarly it cannot work

even in a short period if there is no stability in the relative prices. The relevant prices are those of the substitute commodities or of inputs. This aspect has remained almost totally neglected so far by the government.

9. **Size of Buffer Stock**

In this background of government’s policies and performance DRG accepted the Deputy Chairmanship of the Planning Commission in September 1967. He was obviously hoping to infuse new determination among the political leaders at the State level. Growth with stability continued to be his theme perhaps with some added emphasis because of the serious price-rise situation. It was not just a slogan but he wanted to take some concrete step towards the fulfilment of this objective. Replying to the criticism that his 'Approach Note' (Fourth Five Year Plan) states nothing new, he emphasised that though the idea is not new, it is "put in a specific frame and in a particular context"; it is the relations with selectivity of ideas that is new and important. Stability was stated to have two elements: (1) supply of foodgrains and of basic agricultural commodities and (2) general price stability; and as an operative instrument, buffer stock was emphasised as the most important programme. There was no such relationship in the past, he claimed, and therefore, this constituted the new element in the Five Year Plan. He emphasised time and again that the objective of the

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Fourth Plan is to step up the tempo of activity to the extent compatible with stability and progress towards self-reliance. In concrete terms he meant that stability called for investment and substantial provision for this type of investment constituted according to him the unique feature of the Fourth Plan. \(^3\)

The investment was needed to acquire and maintain buffer stock, expand storage capacity etc. The magnitude of such investment runs into several hundred crores.

The size of the buffer stock is of crucial importance in this connection. On this issue, however, opinions differ substantially. DRC appeared to be satisfied with a small buffer stock. In 1968-69 provision for a two million tonne stock was made; it was, however, only a beginning. The maximum that was deemed adequate amounted to five million tonnes; this was accepted as the target for the Fourth Five Year Plan and the government was confident that it will not only achieve this target but would exceed it. The Planning Commission was of the opinion that stock of this magnitude would suffice to meet all except very abnormal fluctuations such as those characterized 1965-66 and 1966-67. \(^4\)

Elaborating this DRC stated in an interview with Jagannathan, that buffer stock is not meant for abnormal conditions like famine. "For a larger calamity there


\(^4\) Fourth Five Year Plan, 1969-74, p. 236.
is really no safeguard. We really cannot plan for a calamity."  

DRG clarifies his position on the size of the stock perhaps for the first time. What he meant by calamity was obvious; he was referring to severe famine that visited India during 1965-66 and 1966-67. This clarification comes as a disappointment in the context of his earlier views before joining the Planning Commission. By that time he had come to the point of arguing that government should be prepared to take as much of marketable surplus as possible in order to serve the interest of both consumers and producers. After assuming Deputy Chairmanship of the Planning Commission he seems to be retreating from this position. One is surprised even more when the Mid-Term Appraisal Report grumbles about the financial burden involved in maintaining the stock of five million tonnes and appears to hint that even this much stock is not necessary. It contends: "a view about optimum buffer-stock which should be built up in the remaining period is still to be taken." This view depended mainly on the financial resources. "A substantial stock of foodgrains would stand us in good stead in facing any bad year in future as well as the conditions of the present emergency. However, the financial burden of a steady accretion of stocks is bound to eat into our resources for investment unless certain corrective steps are taken."


37 Ibid.
The corrective steps were not spelled out; but it was obvious that no more 'investment in stability' was thought necessary.

Compared to this estimate of the buffer stock, other estimates were at a higher level.

According to Madalgi, a stock of 11 to 12 million tonnes is necessary. The size of buffer stock, he maintains, is determined by two considerations. "One is to meet current needs that is to hold stock adequate to maintain the supply line throughout the year; the other is to have some stocks which would enable the government to maintain supply line even in years of crop failure. The first helps to even out seasonal fluctuations, the second helps to even out annual fluctuations. The former may be called as normal stocks, the latter as buffer stocks."38 Madalgi does not see any difficulty in acquiring this much stock. Roughly it amounts to 60 per cent of the marketable surplus. This much stock is required to meet the needs of the urban population (defined as population of the towns with 5000 or more people). The needs of the rural population would be met with the 40 per cent of the marketable surplus not procured by the government.

Naj Krishna's estimate is still at a higher level. Even if only the low-income group is to be covered by fair price shops, we would need, according to him, about 16 million tonnes

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for distribution every year. 39

Dantwala’s estimate is of the lower order and is more close to that of the Fourth Plan. Instead of starting with the demand for foodgrains, he derives the size by considering the stock required to even out the year-to-year availability of foodgrains affected by fluctuations in domestic production. His analysis of production and per capita availability of foodgrains between 1949-50 and 1964-65 suggests that a buffer stock of 4.3 million tons would be required to equalize supplies in two out of every three years over this period. For equalizing in 19 out of every 20 years, a buffer stock of 6 million tonnes would be required. Considering all the factors together, a stock of 7 million tonnes would be enough. He adds, however, that this quantity would be obviously insufficient to meet shortfalls in production over two consecutive years. 40

There are thus differences in views in this regard. DRG has not referred to this debate in any of his writings. It seems that concern with stability involves consideration of (a) an appropriate size of the buffer stock and (b) appropriate price policy as an instrument to get adequate marketable surplus and ensure incentives to producers. We discussed DRG’s view in this connection. In brief it may be stated that his insistence

an long-term policy for stabilization of prices and agricultural incomes must be an essential plank in the total economic policy of the government. For small and subsistence farmers, special measures are necessary to bring them in the fold so that they can get benefit of this policy.
Section II: Industrialization

We have devoted five chapters to the discussion of DRG’s views on problems of industrialisation. We start with rural industrialisation because according to him it should be the ultimate goal of plan for industrialisation. Activation of rural economy was one of the major concerns of DRG and activation did not mean merely development of agriculture but growth of numerous centres in the countryside where a complex of industries would be developed. The scale, technology, use of local resources including labour and the nature of products – on all these matters DRG has dwelt at length. It is imperative to review his thoughts in this field in the context of the controversies that exist. Basic industries, which are dealt with in the following chapter, have to be developed according to him, so as to serve the goal of rural industrialisation. The remaining three chapters broadly cover what he called policy-frame.

Preparing a plan is one thing, implementing it is another. For the latter policy-frame is essential. Planning without policy-frame, according to DRG, almost amounts to cheating the nation. In the policy-frame we include discussion regarding policy decisions relating to prices and incomes, monopolies and concentration of economic power, conduct of public sector and overall management of a mixed economy. Finally comes the problem of the political will. What is the situation regarding pressure groups is the last topic we intend to discuss.
CHAPTER V

RURAL INDUSTRIALIZATION: THE ULTIMATE GOAL

1. Gadgil's Vision of Industrial Development

Economic development, though not synonymous with industrial development, nevertheless depends substantially on the latter. In the Indian context at least, rapid industrial development was supposed to be one of the most important goals of planning. D.R. was of the opinion that "it is a precondition of improvement of agricultural practices and of increased production from land that employment in non-farm occupations should grow at a larger than proportionate rate. In such non-farm employment the central position is held by industrial production."¹

Prof. Gadgil was, however, not prepared to rely on the operation of market forces for the attainment of industrial progress. He insisted on planning it properly and formulating the plans in the context of peculiar Indian conditions. He implied that it is not only a question of establishing certain industries here and there but a question of determining the 'route of industrialization' i.e. "to determine the stages and manner in which progress towards industrialisation is to be

¹ A.R. Kamat (ed.). Selected Writings and Speeches of Professor D.R. Gadgil, p. 20.
achieved. The emphasis is thus on the process of development; the plan is the plan to generate the process of development rather than a plan to start certain industries only.

DRG thought that this process has to be started at two ends simultaneously. At one end, we have to revive, strengthen and modernise the existing industrial units in the countryside. At the time of independence there was a large number of old traditional industries; these were small in size, dispersed widely and managed by small entrepreneurs with simple tools, the capital investment in which was very small. Development process in regard to these, implied gradual improvement in technology and in business organisation with a view to bringing them closer to modern small-scale plants. In the non-traditional fields, new industries with modern technology have to be established; but the technology employed in these should be adapted to the requirements of the Indian situation in respect mainly of two aspects vis. scale and capital-labour composition. (Gadgil, 1972, p. 348.)

At the other end, the government has to establish modern plants in the capital-goods sector mainly. These would include basic industries such as those for the production of coal, steel, heavy chemicals etc., and industries producing capital goods required by both producers goods and consumers goods industries. This would be essentially a capital-intensive sector. DRG

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2 Ibid., p. 31.
maintained that the development of this sector would be guided solely by one consideration viz. to help the establishment and modernization of small scale dispersed industries. Thus according to him it was "a problem of convergence of progress from two ends". The planners have to determine "how soon and in what manner do traditional and other small scale industries progress and attain a modern industrial structure and how soon on the other hand, will the beginning made with basic and capital goods industry, support the development of small scale consumers goods industry and reach the stage of integration with it in the course of development".

For the improvement of the traditional sector, DRI accepts and elaborates the concept of Intermediate Technology. Stages of development of each industry have to be visualized and technologists with the help of experts in other disciplines have to evolve constantly higher levels of intermediate technologies. In no case according to him is it advisable to clear the deck by sweeping off the traditional industry and establish in its place the modern industry in just one step. Gradual improvement is essential, otherwise a chain of problems - social, economic and political - would crop up. "Planning in this context, therefore, implies the ability to regulate both the pace of progress and also the degree of technical transformation in different contexts at different stages."

3 Ibid., p. 31.
4 Ibid., p. 31.
5 Ibid., p. 31.
This typical pattern of industrial development is desired by DRG because according to him the Indian situation logically calls for a very widespread increase in non-farm employment. This entails development of industries which are as widely dispersed as possible. It necessarily follows that these industries will be small in size, using local resources and catering to the local needs mainly. "In terms of physico-geographical complex this indicates the establishment of a large number of small industrial urban complexes as compared with the recent development pattern of concentration in a very small number of continuously overcrowded metropolitan cities."\(^6\) The traditional sector is technologically backward but it should be improved and not replaced by modern plants and it can be improved only "by absorbing the fruits of technological advance".\(^7\) Thus gradual and indigenous development of the technology was advocated by DRG.

DRG was holding this view consistently throughout his career. In 1961 he clarified again his view as to how progress from two ends should get reconciled. He made threefold classification of the production goods industries vis. (1) the economic overheads i.e. the transport, power and other systems; (2) the basic industries such as steel, coal and other minerals, heavy chemicals etc.; and (3) industries producing the capital

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6 Ibid., p. 29.
7 Ibid., p. 29.
goods required by the consumption goods industries. (Gadgil, 1972, p. 286.) He contends that ultimately increasing per capita availability of consumption goods is the goal of economic development and therefore the pattern of capital goods industries (class 3 above) has to be related to the composition and technique of consumption goods industries. This, in turn, is dependent on the extent and nature of demand for consumption goods and decisions regarding the technique and location of consumption goods industries. The development of capital goods industries must therefore be given this orientation vis. to cater to the needs of consumption goods industries which are small in size, scattered in the countryside and relying on local resources and manpower. Then alone this convergence would come about.

In order to study and examine this view in detail it is necessary first to study the concept of Rural Industrialization DRC developed and second, his view regarding the development of the basic industries. We take up Rural Industrialization first for analysis because it is the ultimate goal for him. It gives us an idea of his vision of the future development. Capital goods industries constitute only a means to attain this goal, according to him.

2. The Concept of Rural Industrialization

In 1963, that is, at a time when the Second Plan period was over and the Third Plan was half-way through, DRC stated elaborately his concept of industrial development for India. He
thought such clarification necessary because the way industrialization was progressing was, according to him, contrary to what was expected or laid down in the basic strategy of industrialization. By that time it was becoming clear that while India was making some tangible progress in establishing large modern plants in the sector of basic industries, little headway was being made at the other end i.e. in the field of rural industrialization. He appears to have formed an impression that the government planners have lost sight of the ultimate picture of industrialized India and therefore decided to state clearly and elaborately what is the ultimate goal. He submitted these notes (Ibid., pp. 338-350) to the Planning Commission; in these notes he appears to remind about and clarify the ultimate goal rather than revise goals or set new goals. In these notes he urges the Planning Commission to regard rural industrialization as the major economic and social objective of the plan; that is the entire plan of industrialization should be framed so as to attain this objective. The investment pattern and all other policy measures and decisions such as those relating to location, scale, technology, licensing, import-export etc., should be formulated with a view to attain this goal.

Let us note the important features of the concept.

In the first place he defines rural industrialization as "industrialization of the country, as widely dispersed, on as small a scale, with as high an employment potential as is compat-
ible with an efficient technique and the requirements of the process of development". (Ibid., p. 336.) Secondly, while explaining the term he emphasizes reserving local resources for such industries. He thought this emphasis necessary because he found that in many cases local resources, instead of being used then and there, were either transported to urban centres to be used in the modern capital-intensive plants or were left unused and unnoticed. Local resources form the basis of rural industries and therefore transport of these in this manner amounts to knocking out the very basis of rural industries. For illustration, he refers to the molasses and bagasse produced by sugar industries which were used by the modern large scale plants located in urban centres. He criticised the proposal of an industry proposed to be started with foreign collaboration for onion dehydration, on the same ground. In general he found that nobody was thinking of industry except in terms of large modern plant. This was not the fault of industrialist, he makes it clear, but that of the planners and government. It is their job to place before entrepreneurs various alternatives, and induce them to adopt that scale and technology which is most suitable to Indian conditions i.e. it should use more labour and local material mainly. Apart from this, it is also the job of planners to organise research activity in this field. Instead we are concerned more with problems of modern technology.

Research in advanced countries relates to the stage of their development. In particular, DSG draws attention to an important
aspect of research activity viz. developing the scrub, the waste and forest lands for production of a variety of materials which could become according to him, the base of rural industry. Since rural industrialization has to be based on local raw-material, the present neglected and fast deteriorating non-arable areas appeared to him capable of significantly increasing the supply of such raw-materials. (Ibid., p. 340.)

Thirdly, DRG made it clear that rural industrialization is not concerned with only traditional industries. It is also concerned with modern industries producing non-traditional products. While establishing these industries, care must be taken to see that certain important aspects of these are adapted to suit our requirements and conditions; these relate to scale, labour-capital composition and use of local resources. This is an important point particularly because it was not taken into account by all the organisations concerned with rural industrialization such as Khadi and Village Industries Commission, Rural Industrialization Commission etc. These organisations, according to him, concentrated mainly on traditional industries and moreover concentrated on negative aspects of the developments of these industries (i.e. as we will see later, they neglected modernisation process of the traditional sector). In future modern product would be important and therefore more careful planning of these is essential.

After spelling out what he meant by rural industrialization, DRG turns to the aspect of planning the promotion of rural indus-
tries. In the first place he makes it clear that wide dispersal
does not mean that industries would be just thrown up in any
manner. It does not mean that industries would be distributed
among numerous villages. It does not mean frittering away
capital resources for the development of infrastructure and
industries in each and every village. He advocates selection
of centres where development would be concentrated. Rural
industrialization should be planned according to him round a
series of centres in the countryside, because our scanty re-
sources permit only a limited degree of dispersal of facilities.
Details regarding the size, location and dispersal of these
centres will have to be worked out in the context of our Ulti-
mate objectives and immediate practicability. We may begin with
fewer and larger centres but in which provision is made for
gradual spreading out". (Ibid., p. 340.)

Once the centres are located, 'strategy of industrialisation'
in each centre, will have to be worked out. This includes
considerations like: what things should be taken up first; how
in a programme of action not only the chronological sequence
but also the possible spatial spread of activities is determined
or expected to come about; which parts of these are crucial
and to be externally established and which are considered as
necessary consequences or by-products; how are finance, techni-
cal know-how, organization and entrepreneurship linked together
in any activity and so on. The total field should be analysed
for considering the various components of the centre. DRO
suggests by way of illustration the following components as the most significant:

1) Traditional handicrafts and artisan industries of the area;
2) agricultural processing activity;
3) activity connected with animal husbandry and forest produce;
4) industries related to building and construction activity, present and potential;
5) any core of mechanical industry around which a complex of engineering industries could be thought of;
6) consumer goods industries, in particular clothing, footwear and food industries of all kinds.

Thus selection of a centre and planning a complex of industries, rather than in terms of single or few activities is important.

But planning of such centres is not possible unless the whole national plan is geared for this purpose. DRC makes an important point here, which is the final aspect of this concept of rural industrialization. Plan for rural industrialization is not a plan which can be considered independently of a plan for modern industrial sector; the two are interdependent and, in fact, shape each other. Plan of rural industrialization will not come into being without what he calls "total integration and coordination of the entire plan". Decisions and actions relating to licensing, export-import policy, industrial research and
training etc., cannot be and should not be taken without considering how they affect rural industrialization. Rural industrialization is not a separate subject or department which can be handed over to an independent authority while reserving the rest of the field to other authorities. The whole national field should be left open to the planners of rural industrialization. In his words the planner planning for rural industrialization "must have not only the authority to pick up and choose and to modify but also to cut out or to scrap and he must be in a position to coordinate all effort over the entire field". (Ibid., p. 343.) That is the whole plan of industrialisation will be oriented to serve the needs of rural industrialization.

Underlying the concept of rural industrialisation as stated above, there is a definite view regarding the technology of production. DHO develops special attention to this aspect. By and large, he is against the wholesale adoption of technology employed in the advanced countries. He concedes that economic development means "an effort to increase the national product, absolute and per capita, by continuously adding to national resources and by making more efficient use of them". (Ibid., p. 347.)

For this purpose advanced technology is important because he admits that "an advanced technology is by definition one that makes a more efficient use of resources than a backward one. Therefore, economic development is, in a sense, identified with adoption of more and more advanced technology". (Ibid., p.347) But while admitting the importance of advanced technology, he
makes it clear that there is no use of importing technology from the advanced countries; only technology indigenously developed in the context of resource endowment of our country is useful. Advanced technology in this sense does not mean technology existing in advanced countries, but technology improved within the country, the improvement being effected through proper research about the utilization of resources - human and material - existing in the country.

Technology imported from advanced countries is actually damaging and does not lead to development. In his own words it does not generate the process of development and further it does not generate employment, which is one of the most important problems of India.

We have to examine both these grounds and also other considerations relating to the concept of intermediate technology. Before we do that, it may be noted that DRG recognises technology as an important variable in development strategy and not an immutable force requiring adjustments in other factors to make way for it. It implies that planners have an important role to play in influencing investment decisions so that they result in the optimum utilization of available resources. This awareness was seen even in the later years, when he was the Deputy Chairman of the Planning Commission. In a letter to the Secretaries of Union Ministries and of the State and Union Territories, the Planning Commission suggested that in the formulation of projects for the Fourth Five Year Plan, there
should be a conscious attempt to depend more and more on indigenous, labour-intensive technology where it is economically sound, rather than on imported technologies which have a labour-saving bias.

Having obtained an outline of the concept of rural industrialisation, intermediate technology being treated as an instrument to attain it, we may now proceed to examine the same.

3. **Critical Examination of the Concept of Rural Industrialisation**

The two outstanding features of the concept of rural development, as outlined above, are (a) creation of centres, where a complex of industrial units is to be developed and (2) emphasis on appropriate technology and smallest possible economic scale. Let us consider each of these below.

(A) **Creation of Centres of Development**

What DRG in essence is advocating is "concentrated dispersal" or "decentralised concentration". This is something new in the context of Indian development plans and experience. In Indian planning, though there has been a frequent mention of the need for planning development of different regions, there was no effort to work out a strategy of regional planning. At the most regional planning at the macro-level was considered actively; the grouping of the States into five zones and the

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setting of zonal councils to resolve inter-State development problems may be regarded as an evidence of it. But all this did not entail planning for regional development.

In Indian development programme there was an implicit faith that once important industries are properly distributed among different States, they would generate the forces of development in their respective regions. This did not happen as is evident from a number of cases. What DRG is advocating is the establishment of smaller centres which would perhaps link the big centres - growth poles - on the one hand and the vast undeveloped countryside on the other.

It is commonplace that if development process is left to itself, there are two opposite spatial tendencies which determine the course of development viz. concentration (centripetal forces) and dispersion (centrifugal forces). At any point of time, the spatial arrangement of human activities is the net result of the relative strength of these processes. However, centripetal forces are usually found stronger than the centrifugal forces with the result that there is "centralised concentration" rather than "decentralised concentration" i.e. a few towns and cities grow enormously leaving large surrounding countryside high and dry as before. Economists like Hirschman see centralized concentration as a necessary condition for economic development. According to him, the economy, to lift itself to higher income levels, must and will first develop within itself one or a few centres of economic growth; only
in course of time these centres bring about economic development of the regions surrounding them. This, however, is not borne out by the experience. In fact, as Myrdal has consistently maintained that the mechanism of growth operates in such a way that centripetal forces become stronger than centrifugal forces and that the spontaneous spread of economic development does not take place. "The flows of labour, goods and services become the media through which the cumulative process evolves upward in the lucky regions and downwards in the unlucky ones." A deliberate intervention in the process of development therefore becomes necessary.

In the context of this, one can appreciate DSG's emphasis on creating small centres where a complex of industrial activities should be developed.

However, this does not seem to be a complete approach. DSG appears to be satisfied with the half-way house between big cities and small tiny villages. This may be a step in the right direction but falls far short of a total policy required for regional development. What is needed is a hierarchy of towns or growth foci which would link up the metropolitan cities on the one hand and numerous tiny backward villages on the other. The characteristics of these growth foci, worked out by Misra etc. are as follows:  

1) The growth foci vary in size and function to suit the specific regional needs and scale. The number and location of growth foci will vary with variations in geographical and socio-economic topography.

2) The growth foci form a hierarchy; the lowest-level foci serve the micro-regions, the next level serve the meso-regions and the highest-level serve the macro-regions. There can be as many levels in the hierarchy as economic rationality and socio-political considerations demand.

3) The lowest-level growth foci provide for all the basic needs of the local community - marketing, recreation, education, medical services, extension services, communication services (post, telegraph etc.) banking and so on - at a central place.

4) The lowest-level growth foci will generally have only processing and "footloose" industries, unless there are favourable locational or other factors for some complex manufacturing process. Most of these industries will be agriculture-based, for example, rice-milling, cigarette making, fruit canning etc.

5) The size of the lowest-level region for which the lowest-level growth focus is selected should be sufficient to generate the necessary demand and supply for services and activities mentioned above. In fact, the demand should equal supply (excluding external demand and supply).

6) The intermediate-level growth foci will have all the
amenities that the lowest-level growth foci have, but at a larger scale and of better quality. They should possess "secondary manufacturing", to use Klassen's term, such as textiles, sugar, clothing, metal and machinery and similar industries.

7) The intermediate level growth foci will be full-grown cities and their conversion into growth centres will lead to the removal of those deficiencies which stand in the way of their self-sustaining growth.

8) The intermediate level growth foci will serve a larger region, which is formed by grouping together the smaller regions served by the lowest level foci. They will have higher level amenities and activities and will integrate the roles and functions of the lower-order growth foci.

9) The highest-level growth foci will serve macro-regions; but if the country is small there may be only one such growth focus for the whole country. These foci will possess still better and greater amenities than those possessed by the intermediate level foci. They will have "tertiary manufacturing".

10) The functions of growth foci will be integrative and growth-generative at the same time. The lower-level foci will integrate the micro-region, the intermediate ones the meso-region and the highest-level ones the macro-region. The channels through which integrative and growth-generating forces will operate will be the hierarchy of growth-foci.
All these details were not worked out by DRG. But the logical development of his line of thinking inevitably leads to these details of planning. Though DRG would have welcomed such a detailed plan, one wonders whether he would have remained hopeful about its implementation. Because implementing such a plan needs political will about which DRG was gradually becoming pessimistic. During the later years in his life, as we will see, he was becoming more and more aware of the difficulties of political nature mainly, coming in the way of controlling the process of economic development and as a pragmatist he started advocating planning which involved less and less of controls. Nevertheless he continued to hold the view that development of a region must be directed in a manner as outlined above.

(B) Technology and Scale

At the basis of DRG's concept of rural industrialisation lies his distrust for advanced technology. He believes that as a matter of rule technology of production should be developed indigenously. The reason according to him, is that advanced technology (i.e. technology imported from advanced countries) does not generate the process of development; instead it creates dual economy. He writes "... in underdeveloped economies the transmission of economic forces is very slow and partial. As a result the creation of a small number of centres of advanced industry in a country fails to have any significant impact on the bulk of rural masses and areas in the rest of the
country and does not initiate the process of transformation which embraces within any reasonable time-span the whole of the economy." (Gadgil, 1972, p. 346.) In other words it leads to the emergence of "dual economy" and DRG argues that dual economy, once created, tends to become more or less permanent. He further contends that the relationship between the two economies is of exploitative character. "... the exchange relations between these two spheres take on the exploitative character which marked the exchange between industrialized metropolitan centres and their predominantly agricultural dependencies in the colonial era." (Ibid., p. 346.) This schism is not only perpetuated but "these two diverge and become antagonized instead of merging and progressing together". (Ibid., p. 346.)

Apart from this, modern technology is not useful in creating employment opportunities on a large scale; on the contrary DRG contends that if we take into account the backwash effect, it may actually result in the reduction of total employment.

We have thus to examine (1) creation and perpetuation of dualism and the exploitative relationship between the two economies and (2) impact on employment. After this we have to consider his approach to appropriate technology.

Dualism

That the implantation of advanced technology creates and accentuates the dualistic features, seems to have been supported
by many studies. The latest among these is the Report of U.N. Commission for Asia and Far East which concludes: "The emphasis given to advanced technology as a strategy for rapid industrialisation in developing countries has resulted in the accentuation of a dualistic economy. It has given rise to social destruction and aggravation of unemployment without producing much change in the standard of living of the majority". 11

Dualism is believed to be the result of economic policy during the colonial period; the pattern of external domination produced a structure of dualism in which there emerged small pockets where modern industries flourished leaving the entire countryside with traditional and economically backward peasantry. The investment made by foreigners did not radiate development forces. "In colonial times plantations, mines and limited number of power-using manufacturing enterprises were not notable for their transmission of stimuli for adaptation to other segments of the economy. They remained enclaves surrounded by stagnation." 12

After the attainment of independence, it was thought that selective import of advanced technology, within the general framework of regulated economy, would help rapid industrialisation of the country, and would thus automatically remove dualism and bring about an integrated economy. This hope was


belied as is evident from the recent experience. There are many accounts substantiating this conclusion. The following account has been offered of a district in India that has enjoyed substantial development of heavy industry. "No 'industrial ladder' seems to have been developed over the last few decades which would bring step by step the steel, fertilisers and pesticides produced in the area to the small farmer even twenty miles away in such forms and in such uses as could induce and enable him to modernise his farming techniques. The industrial development is, as it were, an island—nowhere integrated as part of one area development with the agricultural sector. The experience of Chota Nagpur would seem to indicate that there is no automatic relationship between heavy industry and modernisation of agriculture at least until certain complementary developments have taken place."\(^{13}\)

Tarlok Singh, an eminent economist, associated with planning for a long time, also came to the same conclusion: "The effects of large investments in industry, both at the existing centres and at new centres, have been largely limited to these centres. So far the spread effects of these investments have been relatively small."\(^{14}\) On the basis of available evidence Myrdal concludes: "There is an obvious danger that industrial


starts now planned will perpetuate this colonial pattern.\textsuperscript{15} This was so because he was convinced that spread effects are poor, whatever may be the reasons - economic, social and cultural.

A slightly different version of dualism is found in recent writings\textsuperscript{16} (Baran, Frank etc.). Frank, for example, describes the phenomenon as "internal colonialism". Just as during the foreign domination, colonies were linked by dependency relationship to the outside and were unable to exert any influence on the operation of world markets or in the sphere of international politics, so within an economy there exist mechanisms of internal domination and striking inequalities between different sectors of the economy and in the social structure generally. The rural-agricultural sector remains dependent economically, politically and culturally on the urban-industrial complex. And the relationship between the two is similar to that between the metropolitan country and its colony, i.e. the urban-industrial sector exploits the rural-agricultural sector and continues to keep it underdeveloped. Frank however rejects that it is dualism; according to him the two are well integrated in terms of a structure of metropolitan-satellite relationship which results with the penetration of capitalism into the colony. When the dependency relationship with outside


\textsuperscript{16} The subject is briefly discussed in "An Introduction to the Sociology of Rural Development", by Norman Long, 1977.
weakens, the development takes an "involved form" i.e. capitalism now becomes internal and the modern capitalist sector within the economy starts exploiting the rural-agricultural sector.

DRG seems to hold the same view which may be described by the term 'internal colonialism'. He does not however elaborate it nor does he take trouble to substantiate it. The term exploitation connotes appropriation of surplus wealth generated in the countryside by the urban-industrial sector; it implies that funds are not made available for investment in rural agricultural sector. DRG, therefore, advocates deliberate diversion of investment for rural industrialisation as outlined above.

**Poverty and Unemployment**

Apart from the accentuation of dualistic economy, the import of advanced technology is rejected by DRG on another ground vis. its inability to create employment on a large scale; on the contrary, if we take into account the backwash effect, it may actually result in the reduction of total employment. This takes us to a somewhat controversial subject.

Two schools of thought were prevailing when DRG formulated his views in this regard. "One starts from the fact that labour is abundant, while capital is scarce. From this factor endowment it is inferred that in augmenting modern industrial capacity, labour intensive technologies that make little claim on scarce capital resources should be chosen. The other school
assigns more importance to several dynamic considerations. It argues that capital intensive methods may be preferable, despite the relative abundance of labour and scarcity of capital because they produce a distribution of income favourable to profits and in turn to capital accumulation. As inadequacies in the supply of capital are considered to be a basic inhibition to economic growth the inference is drawn that the rate of growth over the long run is advanced through the use of capital intensive technologies and techniques in new industries. ¹⁷

Both the schools have supporters. Galenson and Leibenstein, important proponents of capital-intensive technology, argued that labour-intensive technology means low productivity; consequently capital accumulation and hence the growth of the economy will be slow. Thus in the long run, levels of both production and employment will be lower than in the case of more capital-intensive solutions. The more labour-intensive the technique is, the less productivities in relation to capital employed i.e. in the case of such a technique (labour-intensive) capital-output ratio would be higher. This would come about with a maximum reinvestment ratio and maximum growth in the quality of labour, since from the point of view of economic development these are the most serious bottlenecks in the developing countries. To achieve this, capital-intensive and

not labour-intensive technique is necessary. It is argued that labour-intensive techniques lead to stabilization of the low level of productivity. It is further argued that capital-intensive technology would result, after sometime, in higher employment also.

Charles Besenhein arrives at the same conclusion. His reasoning is particularly interesting because of his Marxist approach and because it is based on experience of Indian economic growth and Indian planning in practice. He deals with the entire economic growth process rather than with a specific operation. According to him if, in the interest of short-term increase in employment, labour-intensive technology is used, the consequences in the long run will be lower employment; thus precisely in order to increase employment in the long run, up-to-date technology must be employed. In his opinion it follows that “to say that the rate of investment is low amounts at the present level of consumption to saying that the technology employed in production is so little efficient that output is just sufficient to cover the minimum needs of those working and only a very small surplus remains for investment.”

In such a situation it is obvious that to increase the rate and volume of investments it is necessary to apply more efficient technologies and not to insist on the existing non-

efficient technologies, nor to look for even less efficient ones to solve the problem of unemployment. 19

Vakil and Brahmanand, 20 the two eminent Indian economists, examining the question, again in the Indian context, came to the same conclusion, rather in a different way. According to Vakil and Brahmanand, an under-developed country with large population requires a technique of production which would satisfy the needs of increased employment and increased aggregate output, if not increased per capita output. They however see a possibility of demarcating fields - one for labour-intensive technology and the other for capital-intensive technology. Labour-intensity should be applied to capital construction rather than to consumption goods units, which should be left for machine production. This demarcation is advocated on the grounds that (1) the unemployed hands, if applied to labour-intensive consumer goods industries, would produce less than what they would consume out of their enhanced income and leave no surplus for capital formation and (2) if they are diverted to capital construction, like dams, roads, irrigation channels etc., they would help capital formation which will increase income in future.

Capital intensive technology is advocated also on the ground that it will facilitate the entry of developing countries

19 Ibid., p. 343.

20 C.N. Vakil and P.R. Brahmanand. Planning for an Expanding Economy
in the international market for manufactures. External trade
is important in order to earn foreign exchange which in turn
is essential for financial development plans; and traditional
exports of the developing countries are not enough. Modern
products can obtain market if uniformity and quality of their
products are ensured. The Leontieff paradox is also quoted
in support of this argument; \(^{21}\) it is pointed out that though
labour is cheap in these countries, labour productivity in
many instances is even lower with the result that labour costs
are higher per unit of output. And therefore capital intensive
techniques would turn out to be less costly.

Adopting capital intensive technology becomes imperative
according to some due to what is termed as 'shock effect' of
ultra-modern industry forcing all the industries and services
connected with it (through linkages) to adjust themselves to
contemporary modes of business. \(^{22}\)

Supporting arguments also emerge from the consideration
of the characteristics of labour-supply. "Fewer the workers
the fewer the problems", \(^{23}\) this aptly summarizes some arguments
supporting modern technology. One may point out, the other
side of this however: fewer machines, fewer problems, because

\(^{21}\) J. Mouly and E. Costa. Employment Policies in Developing
Countries, 1974, p. 62.

\(^{22}\) Ibid., p. 62.

\(^{23}\) Ibid., p. 63.
of frequent breakdown in machines, supplies of essential inputs and of spare parts etc.

Arguments in favour of labour-intensive technology are equally formidable and impressive. Apart from the fact that these do not contribute to the creation of employment, very frequently even high profitability claimed in the advanced technology proves to be illusory. "First, the equipment generally has to be imported incurring freight costs and has to be installed often with the aid of foreign personnel, another heavy expense, so that by the time it becomes operational it has already cost much more than similar equipment set up in an industrial country. It has, for instance, been calculated that the capital cost of a fertiliser factory in India is 140 per cent of the cost of the same factory erected in the United States. Second, in many industries the production units manufactured in industrial countries have an output capacity far in excess of the local market demand in most developing countries and the capacity is being steadily enlarged... Furthermore, the operation of modern equipment, especially automated equipment, depends upon the maintenance of a reliable supply of raw materials and of power which presupposes a rather advanced level of development of supporting services. For all these reasons, and others could be cited, the profitability of capital-intensive production is frequently disappointing relative to that of its labour intensive counterpart."24

24 Ibid., pp. 63-64.
Several studies have revealed that comparing traditional with capital intensive production the profits per unit of capital employed are not less and per unit of output are slightly higher in the former than in the latter.\textsuperscript{25}

Another study,\textsuperscript{26} covering about 60 per cent of the manufacturing industry in Karachi showed profit per unit of capital employed varying in inverse proportion to capital intensity, profit per unit of output highest in enterprises using the least capital and reinvestment highest in the small and medium-sized firms.

Ability of the capital-intensive technology to maximize income and employment in the long run has also been challenged in some recent studies. Herman, for instance, concludes "the choice of capital intensive sector, with all its high labour productivity (about double the labour productivity of the proposed intermediate industry) does not solve the employment problem, does not contribute to the growth of income and its only significant effect is to worsen income-distribution... Economic development if planned around such capital intensive industries, will not be conducive to an appropriate absorption of the increasingly large labour force in the industrialization process. On the contrary, the unemployed will only see economic


\textsuperscript{26} G. Ranis, Industrial Efficiency and Economic Growth—A Case Study of Karachi, 1961.
development passing them by."  

Tinbergen, on the basis of his studies, drives home the same point. According to him, for maximisation of employment as well as of income, with the given amount to invest it is better to choose labour intensive and intermediate technology. "First put everybody to work", he argues, "the social impact of which is the most important. Later make them more efficient by making it more capital intensive. That is what has happened in advanced countries. It maximises employment and income." He advised the Indian Planning Commission even to import a little outmoded foreign technology and adapt it to Indian condition. It was however pointed out by Mouly and Costa, that this advice has not proved to be beneficial; the reason was that when spare and replacement parts are required they are not available in the countries where the machines were originally manufactured. Experience of textile firms in Pakistan, which imported secondhand machinery, is cited as an example. Moreover, when the firms using such equipment came to enlarge their scale of operations they had to buy different models, the previous ones being no longer available. It may be noted here that this experience does not make Tinbergen's


suggestion invalid. Because Tinbergen, while making this suggestion, implied that while importing secondhand machines, attempt would be made to see that they adapt fully to the local situation; just importing secondhand machinery is certainly not going to help economic expansion. Tinbergen was making an important point that the engineering profession must strive to find labour intensive methods and they may use in their efforts secondhand machinery imported from advanced countries; he was emphasizing that the technologists in underdeveloped countries should use new insight that we have obtained both in men and machine.\textsuperscript{30}

In the 1970's, this line of thinking seems to be getting wider acceptance. This is evident from the World Employment Programme Country Missions. All the reports point to the conclusion that "a poverty and employment oriented growth path may in fact result in a higher rather than a lower rate of growth".\textsuperscript{31} The reports draw attention to the basic conclusion - which appears to be trivial nevertheless very important - that employment problem can be tackled effectively only within the framework of a comprehensive and integrated strategy. This is particularly with reference to the efforts of governments in the underdeveloped world to tackle the problem of employment by

\textsuperscript{30} Cited by Bepin Behari. Economic Growth and Technological Change in India, p. 137.

means of adding special schemes to the development plan (which is drawn on conventional lines) such as crash employment pro-
grammes or those relating to growth centres etc. All these efforts are invariably partial and ad hoc in character. There is hardly any concerted attack on rural poverty and unemploy-
ment. The approach adopted under the World Employment Programme, on the other hand, postulates that major structural changes in the economy and in most of the aspects of development policies are necessary if a successful attack is to be launched on the problems of poverty and unemployment. This approach, focussing government attention on the traditional rural and urban sectors, sometimes described as "informal" sector, seeks both to expand employment opportunities in these sectors and to raise the levels of productivity and income of the people deriving livelihood from them through:

1) gradual modernization of these sectors;
2) the development and utilization of increasingly productive and appropriate technologies;
3) the reduction of inequalities.

The insights obtained from the World Employment Programme have been recorded by Louis Emmerij and Bharain Chai. The first insight was the need to define the dimension and character-
istics of the employment problem. This would be a starting point of the planning process. The entire development plan must be oriented towards this basic need and characteristic

32 Ibid., pp. 61-66.
of the economy. "It is this emphasis on the poverty dimension which, through income distribution, links the employment problem to overall economic and societal questions. It is this same emphasis which has led many economists now to the conclusion that the overall rate of economic growth as an indicator for development is inadequate and that different weights must be given to increases in means of different social groups."33

The second insight relates to the quantitative relationship between the income distribution on the one hand and the employment problem on the other. The conventional relationship was based on the assumption that people with higher incomes save more and that therefore a skewed income distribution would be good to get more savings and thus more investment and would therefore be good for economic growth and employment. This generalization, however, is not necessarily correct; the underlying assumptions need to be critically examined. Income inequalities do have effect on (a) savings and (b) consumption pattern. As regards the first, overall savings in the nation may increase if there is an effort to tax incomes systematically and substantially. If the incomes are not taxed and the savings are left to the sweet will of individuals, there is no certainty that substantial proportion of incomes of rich class would be saved in a way desired by the government. The individual may

33 Ibid., p. 61.
save it for industries which produce luxury or less essential articles; a substantial part of incomes may go outside the country for purchasing goods not produced at home. Thus there is a good deal of uncertainty about the rate of savings. So far as consumption is concerned, there is more likelihood that the rich class would spend more on consumption in general, and more on luxury or semi-luxury articles produced not necessarily locally or even in the country. On the other hand, experience tells us that low incomes are spent much more on locally produced labour intensive goods. It is for this reason, 'the uneven income distributions in many underdeveloped countries not only reflect unemployment but also cause it to exist'. The approach of the World Employment Programme thus not only provides solution to employment problem but also provides a means of obtaining a more even income distribution which in turn further stimulates employment creation.

The third insight relates to the operational side of rural traditional and urban informal sectors. It is found that the bulk of employment in the informal sector, far from being only marginally productive, is potentially at least, economically efficient and profit-making, though small in scale and limited by simple technologies, little capital and suffering from lack of links with the modern (formal) sector. There exists considerable evidence of technical change in the urban informal

34 Ibid., p. 62.
sector, as well as of regular employment at incomes above the average level attainable in small holder agriculture. Often there is strong discrimination against the informal sector activities through such means as the application of unrealistically high standards and the imposition of licensing systems. It is the emerging view that most indigenous enterprises are small because of the structure of the economy in which a number of policy measures favour the modern formal sector. Equally, or even more, important is the competitive advantage enjoyed by large enterprises, especially as a result of State measures which reduce the cost of capital (duty-free imports of capital goods and raw materials, low rate of interest etc.) and restrict competition (high tariffs, quotas, and building, health and safety regulations). It is not always certain whether many large scale firms would be competitive relatively to small enterprises if they were required to compete without State favours.

The World Employment Programme, therefore, advocates positive attitude towards the promotion of this informal sector. The strategy for this purpose should include measures such as:

1) reviewing trade and commercial licensing with a view to eliminating unnecessary licences;

2) intensifying technical research and development on products suitable for fabrication in the informal sector;

3) attempting to increase government purchases of

products and services obtainable from the informal sector; and

4) inducing large firms to train sub-contractors in the informal sector.

Thus while the conventional development approach, based on the labour surplus model, favoured an indirect approach towards development via the modern sector, the emerging alternative approach favours a direct approach, which without neglecting the modern formal sector, puts an equal emphasis on the hitherto neglected and low productivity sectors.

We may not go into the details of this controversy; DRG takes his stand in favour of small scale and dispersed units from the broader point of view of economic development in the typical context of underdeveloped country like India. 'Activisation of rural economy' was his concern. Given the factor-mix in the country, he was favouring developing activities that would utilize available labour supply most productively. In this sense many of the arguments developed in the context of the debate with a narrow focus are relevant for understanding DRG's emphasis. It may be possible to make out a case that modern technology generates adequate employment; but that is not all in the Indian context. Myrdal makes this point very clear. Myrdal refers to an important study in which the consequences of labour intensive technology were studied in five important industries viz. cement, paper, iron and steel, sugar and the Bombay and Ahmedabad cotton textile firms. The conclusion reached was: "Even doubling the labour per unit of invest-
ment, as compared with the coefficients computed ... would only increase the labour force in the five industries studied, by about 100,000 more workers than projected in the second plan, assuming the same investment plans; the effect upon all organised manufacturing industry would increase employment in all factory manufacturing industries by less than one million workers in the second plan period (in contrast to a projected expansion in the labour force by ten million workers). Investment in this sector has to-day probably one of the lowest direct employment expansion effects, compared with an equal investment within other sectors of the economy.”

On the basis of this study and his own general observations, Myrdal concludes: “the adoption, even on a major — and totally impracticable — scale, of technologies and techniques favouring heavier employment of labour would not have made a substantial change in the direct impact of industrial expansion on participation ratios. This is so because modern industry forms — and will form for a long time to come — a very small part of the total economy in India and a still smaller one in other countries of the region. This situation, it may be added, further reduces the practical significance of the widely discussed problem of factor-mix.”

Thus the controversy regarding labour versus capital

37 Ibid., p. 1184.
intensive technology is of less significance; what is important is to find out ways and means through which we can activate rural economy. The lack of interest displayed by DRG in this controversy leads one to infer that DRG too regarded it somewhat irrelevant to the Indian situation. His insistence on rural industrialisation as the major goal had its basis on his particular concept of the process of economic development as stated above.

(C) **Approaches to Intermediate Technology**

Rural industrialisation as is abundantly clear from the above, was a part of the development process and not a matter of relief measure. It is for this reason, improvement in technique of production, was insisted upon by DRG quite often. His belief in possibilities of improving technology was based both on *a priori* and on empirical research findings. It is this perspective that was necessary for planners at all levels. He criticised the Khadi and Village Industries Commission and other related organisations for the lack of this perspective. According to him Khadi and Village Industries Commission treated the existing rural industries merely as relief measures i.e. industries which needed protection for a short period only hoping that the development of the economy and of modern industries in particular would sooner or later make these industries redundant. "Instead of following proper development programmes, they wasted resources in what were not even effective relief measures." (Sadgil, 1972, p. 287.) He criticised the government
too. While the government prepared schemes like common production programmes, the view adopted according to him was not one of properly directing the development process but that of overcoming only the immediate difficulties. "The common production programme approach was not kept in the reorganisation of handloom industry so that there was neither efficient development of that industry nor any serious contribution by it towards additional supply of cloth for the masses." (Ibid., p. 287.)

For proper approach, the most important step was to mobilize the research talents in the country. It is the job of the planners and government, according to him, to place before the research workers a properly formulated problem so that a technical breakthrough may become possible. That such an approach bears fruits was established according to him empirically and as an evidence he refers to the work of the Central Research Institute at Wardha. In particular, he refers to one research article written by Dr. M. Sadashiv Rao. It may be useful here to note the important findings of Sadashiv Rao in order to understand the manner in which improvement in technique of production in traditional industries becomes possible.

According to Sadashiv Rao, an industry consists of a series of specific 'unit' operations starting from the raw material and ending with finished products. In a village industry, most of

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the unit operations are hand or hand-tool operations and a few are operated by animal power. Theoretically all operations can be mechanized. But this entails a large investment and it would be uneconomic unless the scale of investment as well as of production are enlarged. Therefore, maximum return with minimum of capital investment in small industrial operations can be obtained only by a selective mechanization of a few 'key operations'. The key operations are those which require great labour and/or time and hence have a very low productivity of the entire series of industrial operations (or industry) as a whole. The key operations are few in village industries and can be located after some investigation. By and large the 'key operations' are those which are carried out with the help of animal power. Animal power is used because human labour is not strong enough to carry out them. Sadashiv Rao pleads that only these operations should be mechanized. This kind of mechanization of selected operations rather than mechanization of the entire production process would not only increase employment or at least retain the already existing labour component but increase the productivity also considerably. Mechanization of key operations would perhaps require larger input of labour. Further it would enable the rest of the hand or hand-tool operations to be organized on a higher wage-basis. Sadashiv Rao therefore concludes "the higher the productivity of the mechanized key operations the greater the employment in hand operations and higher the level of wages in the industry as a whole".
This analysis is important for several reasons. In the first place it reveals possibilities of retaining the present level of employment on a higher level of productivity and therefore of securing higher wages to the workers; secondly, it shows that it is possible to increase employment as the economy makes progress. Generally the development process, which is of primary importance to DRG, is thus ensured. Selective mechanization according to Sadashiv Rao can raise village industries to the point of 'economic take-off' without a period of waiting. DRG seems impressed by this analysis. He affirms "the technical improvement and part mechanization of a village industry may enable it to produce mass consumption goods more efficiently and cheaply or it may as in the case of handmade paper, be oriented towards the production of highly specialized costly goods". (Ibid., p. 268.)

This is, however, only in regard to the traditional industries. DRG attaches equal, if not more, importance to the establishment of modern industries i.e. industries which are not the outgrowth of traditional village industries. Here the beginning is to be made from the other end; "approach from the end of the most advanced technology and to adapt and adjust so as to meet the requirements of the intermediate". (Ibid., p. 347.) The chief requirements of this are small scale and change in the proportions of capital and labour inputs. He suggests yet another approach vis. to conduct experimentation and research in a direct effort to establish intermediate technology.
All these approaches have been borne out through experimentation. For example as regards the first approach, Patel noted that in cotton weaving the introduction of semi-automatic pedal looms produced an output as high as that of fully automatic looms; in the preparation of fruit juices the use of simple press gave more employment and was as efficient as grading machines and the mechanical juice extractors. In the inaugural meeting of the ATDC July 1967, it was stated: "Studies conducted by the Indian Agricultural Research Institute on behalf of the Food Corporation showed that the expensive four ton per hour rice mill, costing 20 lakhs of rupees highly mechanised and employing only four men, produced rice at a cost of Rs. 60 a ton. At the other extreme there is a mill with a capacity of one-third of a ton per hour, costing about Rs. 8000 and employing ten men (eight if a bullock is used) which produced rice at about Rs. 8 per ton. (The type of mill most commonly used in India produced rice at about Rs. 10 a ton.) But when the highly mechanised mill was simplified, made less sophisticated its cost came down from about Rs. 20 lakhs to Rs. 3 lakhs, it employed 30 men instead of four and its production cost per ton of rice fell from Rs. 60 to between Rs. 10 and 12. Moreover instead of being wholly imported, many of the parts of the simplified machine could be manufactured in India. And when the very small mill was scaled up from one-third of a

ton to four tons per hour, it employed not ten but 48 people." Many more examples can be cited. Properly organized research can yield fruits. The Group for developing intermediate technology, established in United States in 1965, publishes an illustrated guide entitled "Tools for Progress" which lists under 31 headings, tools and materials suited for use in developing countries.40

In the modern-industry sector also research is yielding important results. We may refer to two such cases. The first relates to the recent tendency of the international firms to design small petroleum refineries with low capital investment per unit of output and a low total capacity, say from 5000 to 30,000 barrels daily. These units are as efficient and low cost as the much bigger and more capital intensive refineries corresponding to conventional designs.41 The second relates to package plants for ammonia production, recently designed for small markets. The investment cost per ton in a package plant' with a 60 tons a day capacity may be about $30,000 whereas a conventionally designed unit, with a daily capacity of 100 tons would require an investment of $50,000 per ton. These two examples in a critical industrial field where the investment cost for small countries is frequently prohibitive,

40 Ibid., p. 70.

show that it is technically feasible to go over existing technologies and equipments and redesign them according to the specific needs of developing countries.42

The approaches suggested by DRG, therefore, were feasible and basically correct. His emphasis on organising research talents properly and placing before scientists the problem in a precise manner was sound. He urged that "Intermediate technology should become a national concern and not, as at present, a neglected field assigned to a small number of specialists." (Gadgil, 1972, p. 349.)

(D) The Performance of Rural Industrialisation Programme

While DRG was consistent and logical in spelling out his ideas about development, he appears to be relatively less attentive to the actual experience in regard to rural industrialisation in India. True that he criticised the working of agencies connected with rural industrialisation from time to time and that his criticism was appropriate; however, he did not pause to review the entire working of the various schemes and see which factors are responsible for the failure, which of these arise out of human failure and which are inherent in the situation itself. Such a review is essential because ultimately the development model is to be implemented in the context of the given human situation. It is therefore of utmost importance to know which of the elements present formidable

42 Ibid.
difficulties. DRG never appeared to consider this aspect at length. It may be worthwhile here to review the entire performance of rural industrialisation in India in order to get a correct appreciation of DRG's views.

The concept of rural industrialisation was accepted in principle right from the beginning of the planning era. As a part of this the traditional industries were to be revived and modernised in planned phases. The working of this policy gives us an idea about the kinds of difficulties involved. To take care of this aspect of development, Khadi and Village Industries Board was established in 1953, i.e. after the First Five Year Plan was almost half-way through. However, it took many years to realize that the stupendous task the Board was supposed to handle, would require much more autonomous and independent organisation. The Board was expected to set up similar bodies in the States so that there could be an effective organisational machinery at the Centre and in the States. The Board was entrusted with the responsibility for "preparing and organizing programmes for the production and development of Khadi and Village Industries, including training of personnel, manufacture and supply of equipment, supply of raw materials, marketing and research and study of economic problems of different village industries. The Board will also function as a clearing house of information and experience relating to these industries." Soon it was realized that the Board did

not have powers commensurate with the responsibilities entrusted to it. No substantial progress could therefore be made. In 1957, in place of the Board a new set-up was created viz. Khadi and Village Industries Commission. Functions of this organization were enlarged and adequate powers were conferred. "Thus a lot of precious time was lost, just in realizing what kind of organisation is required to achieve one of the important objectives of rural industrialisation." In the meanwhile, the Second Plan was launched, massive investment was made for the development of basic industries, which were supposed to help realize the ultimate goal of decentralized and dispersed industrial growth.

During the Second Plan, the role of village and small industries was made clear and specific. The Plan had the benefit of the Karve Committee Report. The Plan observed: "village and small industries in their different aspects are an integral and continuing elements both in the economic structure and in the scheme of national planning. ... The primary object of developing small industries is to extend work opportunities, raise incomes and standards of living and to bring about a more balanced and integrated rural economy. ... The sector of village and small industries is not to be viewed as a static part of the economy but rather as a progressive and efficient decentralised sector which is closely integrated, on the one hand with agriculture and on the other, with large scale industry." 44 The Plan endorsed the recommendations of

44 Second Five Year Plan, 1956, p. 429.
the Karve Committee when it stated: "what was needed was a pattern of industrial activity in which a group of villages converging on their natural industrial and urban centres form a unit, or to use the committee's (i.e. Karve Committee) expression 'a pyramid of industry broad-based on a progressive rural economy'.

But the task does not become easy to attain just because it is expressed in clear terms. It was not realized that to attain this goal much more planning and preparation was required. There was also the need to establish proper machinery to implement the plans speedily and efficiently. The Khadi and Village Industries Commission as stated above came into existence in 1957 i.e. when two years of the Second Five Year Plan were already over. More time was further lost, perhaps unavoidably, because of the inability of the Commission to commence work in right earnest. The Commission's task was enormous and it was spread through the length and breadth of the country. To establish a modern steel plant was relatively easy. The Commission had to establish its counterparts in several States, study the various types of situation in these, attain coordination between various organizations and institutions connected with rural industrialization and also between departments and organizations connected with modern large-scale industries. Time, talents and resources required for this work were not

made available to the Commission. The progress, therefore, was small and halting. As Sundram observes: "The operational hurdles that had to be crossed were erected not so much by inimical industrial and commercial interests alone, although these were many, spirited and intimidating enough; but what really became - to use a military term - logistically difficult was to organise programmes of development in every part of a large country that lived in its widely scattered villages." By the middle of the Second Plan period, the importance of effective coordination was realised, and it was decided to establish a new organization for this purpose. Thus came into existence the Rural Industrialisation Commission to coordinate and combine the different Boards and other bodies. Thus even the creation of organisational set up required several years.

Though these difficulties and delays were known, they seem to have been ignored while preparing plans for development. There was widespread dissatisfaction and impatience about rural industrialisation; but it was not realised that sufficient time had not passed to warrant any dissatisfaction or pessimism. The Third Plan admitted failure in this regard. It stressed that the pace of technological transition was far too slow and problems to be faced were numerous, such as unsold stocks, high production costs and even decline in the volume of employment. The impatience of planners was clearly

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seen in the conclusions drawn and targets set in the Third Plan. Expectations were raised without understanding the difficulties and problems involved. Sundram observes: "The Planning Commission was aware that the Khadi Commission had not had more than a few years to bring into existence the appropriate machinery at the State level; and the majority of them had little or no experience with organizing and implementing programmes of these industries; and had not had the time to become effective bodies; and therefore, they depended on the Commission's field personnel to do whatever work was assigned to be done in their respective areas. It was equally aware that the Commission had but barely set up a research institute to conduct technical studies to assess the scope and methods for the introduction of improved techniques. In brief, it was fully aware that the organisational aspects of the programme were intimidating both in their size and their intricacy. In spite of being kept fully informed of every one of these problems, it became ready to change its own approach and to adopt standards of assessment that were neither appropriate nor, taking into consideration the time given to the development programmes to get into the field, even equitable." He writes further that far from making allowances for the difficulties, the Planning Commission and the public demanded a rate of progress that was not possible even among large-scale industries.

47 Ibid., p. xvii.
The Fourth Plan, of which DHG was the chief architect, continues to harp on the same lines. The first and foremost objective of the programme was again stated as "to improve progressively the production techniques of small industries so as to enable them to produce quality goods and to bring them to a viable level." 48 Though emphasis on improving techniques was not new, there was an added emphasis on attaining viability and further on shifting emphasis from protective to positive measures of assistance. This approach seems to have been based on the report of the Khadi and Village Industries Committee, headed by A. Mehta. 49 The report was submitted in February 1968. This report is important as it is a major effort to assess the whole programme of village industries on the basis of experience of many years. The Committee arrived at certain important conclusions. It recognised the need to continue the programme of village and small industries in order to provide employment on a large scale; but it emphasised that even the creation of employment on an enduring basis depends on the economic viability of the Industry and its ability to expand with only the minimum government subsidies. No development in this direction took place because "there has been no significant impact of technological improvement in both Khadi and village industries, with the result that more than 70 per cent

48 Fourth Five Year Plan 1969-74, p. 287.
of the much larger khadi production is still derived from traditional charkha and traditional village industries continue to fight a losing battle". 50

The Committee therefore recommended to prepare a seven year programme for improvement of techniques, in respect of each of the traditional industries, with a view to bring it to a viable level. The test of viability was that the artisan engaged in the industry should be able to earn, without any special protection (i.e. any protection over and above that provided under normal village and small industries programme) a wage which is not less than the prevailing local rate of wages in other occupations for the same level of skills.

For this purpose, positive as against protective assistance was recommended. This included grants for training, research and technical advice and assistance and loans for working capital. Subsidies were to be minimised; the Committee in fact recommended a ceiling on subsidies.

DRG seems to have accepted the analysis and recommendations of the Committee. However while accepting them, the difficulties involved in the implementation of the programme were not carefully attended to. Expectations remained high and were in fact raised further; but at the same time little thought was given to the special needs of the programme. In the vast amount of literature DRG wrote on problems of economic

50 Ibid., p. 12.
development, no adequate attention seems to have been paid to the detailed analysis and fact-finding of what was happening to the rural industrialisation while implementing various schemes. Considering the primacy he accorded to rural industrialisation, one wonders why he did not care to study and evaluate implementation of schemes in this field. There is frequent reference and criticism but no elaborate study. This deficiency appears to be particularly conspicuous when we remember that he had at his command a well-established research institute.

Apart from the fact of considerable delay in evolving the proper machinery for rural industrialisation, there is yet another important aspect viz. the internal working of various bodies and organisations. The nature of discussions taking place between members and various bodies, the manner in which decisions are taken, the ideological background etc., these are the matters which are very important in order to understand the strength and weakness of such organisations. There are no studies to throw light on this important aspect. Sundaram, however, gives some important glimpses, if not the whole analysis. According to him "the Khadi and Village Industries Commission remained subject to a variety of ideological predilections of its Advisory Board on the one hand and the ambitious young politicians of State Boards on the other."

As a result economic realism was lost sight of and all progress was withheld. The most important illustration that was given
was the one related to Ambar Charkha programme. The Ambar Charkha Enquiry Committee warned the Commission of several serious weaknesses of the Ambar Charkha as an instrument, emphasised the need for caution in introducing a programme of production based on it and for continuity of effort at improving the technical efficiency of the Charkha and the quality of yarn spun on it. Another Committee later appointed to study the organizational aspects of the programme also made similar important recommendations. The response of the Commission however was not rational and constructive but "a spirited attempt at refutation of all points of criticism". It decided to go ahead with the programme ignoring these reports. Sundram observes: "The failure of the Ambar Charkha programme was not so much the result of the insufficiencies of the Ambar Charkha as an instrument or its inappropriateness to meet the needs as they then were assessed but of the esoteric nature of the ideological limitations imposed on the Commission and its day-to-day activities by its representatives of the Sarva Seva Sangh. Ideological inhibitions of the Sarva Seva Sangh have not only interfered with the Ambar Charkha programme but also with the personnel of various khadi institutions that had taken on heavy responsibilities for the implementation of the programme. The entire research programmes of the Commission suffered because of the limitations of the terms of reference within which these schemes had to operate. Schemes and programmes of great promise and social value to the country came to grief one after another
thanks to the unrealistic attitude of this body and the enormous moral power they wielded over the destinies of some of their more progressive members."

This shows that something was wrong with the decision-making process within the organisation. This was a serious deficiency and it does not seem to have attracted attention of planners and research workers. Consequently no remedies were found and the programme of rural industrialisation suffered considerably. DRG does not appear to have paid attention to this aspect.

Presentation of this somewhat lengthy discussion about the experience of Khadi industry sector is deemed necessary for two reasons. In the first place, one ought to know what are the practical difficulties in implementing schemes which are formulated from the idealistic point of view; many schemes and ideas about planning, howsoever useful from the theoretical point of view, may found beset with difficulties of all kinds with the result that they would remain on paper. Secondly, in the light of this, it was necessary to know whether DRG has any different analysis, or whether he has any suggestions to offer to meet these difficulties or whether he wanted to revise his entire stand in regard to rural industrialisation in the light of this experience.

It is clear from all his writings that DRG did not give any serious thought to this aspect of the problem. The only worthwhile comment he makes is of the following type: "The chief problem here is to make this (dispersal and decentralisation) compatible with efficiency in production and with the process of development. Unfortunately the case for this has become weak because of the almost complete failure of the Khadi Board and related organisations during the Second Five Year Plan period. Instead of following proper developmental programmes, they wasted resources in what were not even effective relief measures." (Gadgil, 1972, p. 287.)

It is true that Khadi Board lacked vision and enthusiasm to formulate and implement "proper developmental programmes". However at the same time it was not the only deficiency that accounts for the total failure. What is a proper developmental programme? What are the essential requirements for it? What are the technical, social and economic problems involved? The problem of expansion of modern industries was relatively simpler than that of rural industries. Modern section had an accumulated experience and technical know-how, all kinds of facilities and incentives etc. The Khadi or rural industries sector was suffering from technical deficiencies, lack of experts, capital and research facilities; over and above these there were organisational problems as described by Sundaram. DRG does not seem to consider these as of much significance. In spite of the faltering progress, he was optimistic as is evident from
the references in the Fourth Five Year Plan of which he was
the chief architect. He does not pause to consider whether
these difficulties were inherent in the development process,
whether any special policy-frame is necessary or whether any
alternative industrialization strategy had to be thought of.
Without any consideration of these serious obstacles, his plea
for pushing the scheme appears incomplete.

4. Comparison with Gandhian and Leftist Thinking

In advocating rural industrialization through the devel-
lopment of intermediate technology, DRG was advocating a unique
path. He had some similarities and important differences with
the important contemporary currents of thought. For example,
DRG shared with Gandhians the disgust for the large metropolitan
towns; he also accepted that rural economy is exploited by the
urban economy; he discarded the blind adoption of advanced
technology. Like Gandhians he wanted activation of rural
economy. However, he did not favour like Gandhians, the
revival of old self-sufficient village system, though he wanted
to revive and strengthen the traditional industries. He
explicitly discarded the concept of self-sufficient village
and also discarded village as a planning unit. He advocated
district as a unit of planning and as stated above argued for
establishing small towns with a cluster of industrial units.
He differed from Gandhians also in that he insisted on absor-
bining the fruits of modern science as speedily as possible and in
a planned manner. All this implied that the traditional village
industries may cease to exist in their present form and may be shifted from small villages to relatively larger towns, where they will serve not just one village or two but a larger area. Gandhians do not imply this; they do not visualise enlargement of the area beyond the village.

He had marked differences with the rightists as well as the leftists. He differed from the former in that he was a strong opponent of the laissez faire. Consistently he maintained that reliance on market economy would bring nothing but disaster to this country. He differed from the latter also. Leftists in India broadly favoured the adoption of advanced technology. The experience of Eastern European countries and the theoretical support derived from thinkers like Bettleheim in particular, lent support to their view. Rural industrialisation, based on the development of intermediate technology, implied widely dispersed numerous small units. This necessarily meant expansion of private sector to which the leftists were opposed. In DRO's framework of thought, rural industrialisation was the ultimate goal; wherever necessary, he advocated cooperativisation in order to secure the economies of scale, but essentially it was a private sector, though regulated by the State. He appeared to have avoided the use of socialist terminology more or less deliberately because it did not convey fully the ideas he had in mind.
CHAPTER VI

BASIC INDUSTRIES: THE SECOND FIVE YEAR PLAN MODEL

D. R. Gadgil was for a rapid and all-round industrial development. That this was possible was impressed upon his mind probably by the examples of Russia and Japan. His approval of the Second Plan strategy which was largely influenced by the Russian model of planned development and his various references to the Japanese experience of development probably make this clear. A close scrutiny of the two experiments brought home to him the similarity rather than the differences. Though the two countries belonged to two different camps, he found that there is one common lesson that can be drawn by the students of economic growth; "it is the story of the present sacrifice, maintained over extended periods and someone to see that the result of these sacrifices went into economic development". This someone was a revolutionary government in Russia; while in Japan it was a group of small number of capitalists working in close collaboration with and under the guidance of the Emperor, according to some agreed but not so explicit principles. While in Russia, planning was formally accepted and developed, in Japan it was informal. In both

1 Dr. Singer's Lectures on 'Development Projects as Part of National Development Programme,' quoted by D.R. Planning and Economic Policy in India, 1972, p. 33.
countries it was realised that in certain important matters, like investment in heavy industries, building railways and telegraph lines or in factories to manufacture wholly unfamiliar products, government has to take initiative and lead the development process. Moreover the effort must be substantial; the objective is to lay down the foundation of industrialisation for the future and not just to establish a few industries with sight confined to the immediate needs and future.

In this context, it is easy to understand the criticism which DRC levelled against what he called the 'American School'. This school of thought which was quite influential around 1950 insisted on a course of development which was entirely different from that adopted in Russia. The school advised the developing countries "not to pitch their aims too high". This was in reference to the ambitious Russian development plans. According to the American school, "the only social revolutions that they (i.e. developing countries) should content themselves with should be that of abolishing the older landlord class and creating a small peasant class; in industry the emphasis should be on development through private investment, domestic and foreign, mainly in the direction of simple consumer goods industries started by domestic manufacturers and the exploitation of special resources by foreign capital." (Gadgil, 1972, p. 26.)

He criticised this school of thought severely. The immediate occasion to launch this criticism was provided by
the First Five Year Plan of India. According to him this Plan was closely modelled on this American view. He criticised the Plan, on several grounds; first, because it was very small in size which meant that the effort proposed was not substantial; second, "it does not look beyond its period and does not think in terms of a development process which will be continuing and for which the initial basis is afforded by the performance in the first five years" (Ibid., p. 147). The Plan did not think of laying down the foundation of economic growth.

In his view "economic development means a shifting of emphasis from primary production, in the sense of the direct exploitation of natural resources, to industrial production" (Ibid., p. 147). But industrial production does not mean merely a production of a few primary consumers goods. He clarifies that "it means a complex of industrial structure and an economy which is well balanced internally. An emphasis on increased production of consumers goods because this can be easily achieved or because the products are immediately in demand exhibits only a short period view. This view aims at an immediate increase of certain goods rather than at general economic development. In this sphere again universal experience shows the necessity of starting at what would appear to be apparently a more remote point i.e. with the basic industries on which alone lasting economic progress or development can be based." (Ibid., p. 147.)

The above passage makes clear DRI's views on planning for
development. Planning in the first place must take into account perspective on long term basis; secondly, the plan must be a plan for a balanced internal industrial development - and he implies that to start with we must strive to establish and develop basic industries - even if it amounts to starting at a remote point. Moreover, he claims that this course of development is the most proper because it is supported by universal experience.

What he means by 'universal experience' is not clear. It may mean either of the two things: First, it may mean that the pattern and process (i.e. the sequence in which different industrial sectors, such as consumer goods and capital goods sectors follow) is more or less the same for all countries; or alternatively it may refer to some abiding lessons we can draw about the shortest route to industrial development on the basis of experience of economic development. Presumably, because of the influence of the Russian model on his thinking, DRG most probably might have the latter meaning in his mind.

Let us examine the universal experience. The universal experience in regard to industrialisation is so varied that it is doubtful whether we can see any definite pattern of development. The experiences and policies of different countries differ widely. The countries today known as advanced, started industrialisation at different times and in different circumstances. The process of development, the speed and the role of government differed from country to country. Industrial
Revolution occurred first in Great Britain. It was in Britain first that many of the new machines and processes were first devised and exploited on a large scale. All this machinery was indigenously made. It was simple in nature and required less amount of capital. The entrepreneurs themselves developed these machines and processes, with their own savings and efforts and in the context of the prevailing technological problems. Until about 1825, most of the machinery was made of wood. Technical knowledge, derived from the earlier system of manufacture, was transferred to the new factories, and the labourers for the new factories were at first taken from the old handicraft industries and it was only later that labour was recruited from agricultural occupations. Many of the workers under the old domestic system of industry were in reality little better than weekly wage-earners under the direction of capitalist and merchant employers and therefore the ground had to some extent been prepared for the new factory system. The new factory owner and manager was the old merchant employer in a new guise and therefore the social structure at first changed but little.2

We may mention in addition three important features. Britain used external trade as an important instrument for developing her industries. Secondly, industrial development of

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Britain was self-reliant for the simple reason that she was the first country to industrialize; and therefore there was no question of anybody else helping in her development process. Finally, while the government itself did not take active initiative in establishing industries, the policy was permissive and framed consciously with a view to the development started by private entrepreneurs and capitalists. The supply of entrepreneurial skills and private capital was not lacking in U.K. The government believed that only supporting policy is enough.

The countries which followed Britain had different features. As Hoffmann points out industrialization of other European countries was influenced by the existence of an already industrialized country. The governments were more active in promoting industrialization because of the sense of competition. The time-period was considerably reduced by these countries who joined the race after U.K.

In modern times, Russia and Japan are the two important examples of rapid industrialization. Japan started very late as compared to the European countries but completed the process in a very short period. The role of the government was important. The government believed it had to perform entrepreneurial functions, to foster capital formation and to fit Japan into the growing network of international trade and finance. It therefore took initiative in building railways and telegraph lines and factories to manufacture wholly unfamiliar products.
because it believed that private capitalists would not build these even though these were necessary. The government took initiative also because political independence was ensured by the development of these sectors. Even in 1880, shipping, telegraph systems, railway and munitions were widely regarded as undertakings appropriate to government, either on the grounds of strategic importance or because the important indirect benefits that they conferred were so diffused that no private entrepreneur could turn them into collectible revenues. The entrepreneurs possessing capital and innovative capacity were asked to choose new occupations, "novel industries and undertakings".3

The Russian experiment of industrialisation after the Communist revolution falls into a different category. The objective was not merely to convert an agrarian economy into an industrial economy but also to attain economic independence in order to increase the defence capacity and to reduce dependence on other countries for essential supplies of capital goods. This was the objective which emerged in the typical circumstances. The Socialist revolution was in fact staunchly opposed by the industrialised powers in Europe. There was a constant fear of attack and getting assistance from any quarters was out of question. General backward agrarian background, lack of entrepreneurial skills, and the need to speed up industrial

development as fast as possible, made the role of government most important. The leaders of the revolution put the objectives as: "to carry out such measures of industrialisation as will secure the economic independence of the country, strengthen its defensive capacity and create the conditions necessary for the victory of socialism". There was therefore great emphasis on the development of basic industries. Of the total investment in industry, the proportion allocated to capital goods industry was 84.8 per cent during 1929 to 1932, 83 per cent between 1933 and 1937, and 84.1 per cent between 1938 and 1942.

It was thus a conscious decision of the government to concentrate investment in the capital goods industries. Only because of this decision and because of the strictly controlled economy, this became possible. In the market economy it would not have been possible. In a market economy, in which the price system organizes output and allocates investment, consumers goods industries would have increased their output much more and would have bids capital for investment away from producers' goods industries.

This strategy was supported by theoreticians also. M. Dobb, for example, states: "If the more quick-yielding forms of

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6 Ibid., p. 197.
investment are chosen, then of course the consumable income of the near future will tend to be larger to the extent that new clothing factories etc. come into operation and begin to pour their products into the shops. On the other hand, the rate of future development will be restricted by the limited capacity of the industries producing machines and equipment, so that expansion in say, the second quinquennium and the third quinquennium, cannot be so great (leaving aside the questions of import from abroad) as it could be if priority had been given in the first place to expanding the capacity of industries which produce capital goods. By contrast, if the constructional programme is initially geared so as to give priority to the latter—to building blast furnaces and steel mills and engineering works—then the flow of consumer goods in the first few years will grow more slowly (and will be smaller than under the alternative scheme). But future development in say, the second quinquennium and after, can be much more rapid since the basis for producing machinery and capital equipment for the industry in general has previously been enlarged.”

The universal experience thus appears to be varied. However, in his well known work on industrialisation, Hoffmann sees some striking similarities. "Whatever the relative amounts of the factors of production, whatever the location factors, whatever the state of technology, the structure of the manufacturing

sector of the economy has always followed a uniform pattern. He distinguished four stages through which countries commonly pass in the course of their industrialisation. In Stage I the consumer-goods industries are of overwhelming importance, their net output being on the average five times as large as that of the capital-goods industries. In Stage II, the initial lead of the consumer-goods industries has diminished to a point where their net output is only two-and-one-half times as large as that of the capital-goods industries. In Stage III the net output of the two groups of industries are approximately equal and in Stage IV the consumer-goods industries have been left far behind by the rapidly growing capital-goods industries. This work was published first in 1931 and did not include Soviet industrialisation. The significant feature of this process has, however, been its accelerating character and the shortening of the phases, so that major industrial countries which had begun to industrialize much later than Great Britain—the United States, Germany, France, Sweden—had before the end of the 19th century caught up with Great Britain and entered the third phase of equal terms with her; and these countries were joined after the First World War by Japan where industrialisation did not begin before 1860. Moreover, countries where industrialisation did not begin before 1890, or

9 Ibid., p. 3.
even before the First World War, had by the 1950s entered the third phase; Canada, Australia and South Africa were cited as examples. This rapid progress was attributed partly to the absence of competition from "old established craft industries" and partly to "action taken by governments to foster capital goods industries".

Hoffmann did not consider Soviet industrialisation. Soviet industrialisation was a planned and controlled experiment as stated above. That does not necessarily mean that the pattern of industrialisation planned and executed by the Soviet authorities was different from that observed by Hoffmann. In an interesting study of Soviet Industrialisation, E.H. Carr\(^1\) concludes that "Soviet industrialisation is neither a unique phenomenon, nor a deviation from an established and accepted model, but an important stage in a process of development which began two centuries ago. The specific feature is its association with a planned economy, though planning is neither so complete an innovation as is sometimes believed nor confined so exclusively to the Soviet and post-Soviet economies". Carr draws his conclusion after establishing that the Soviet economy had by the time of revolution already passed the first two stages. There was some disruption because of the revolution but the restoration period was over by 1925 and stage was prepared for launching the stage where capital goods industries

sector was to speed up its development and outstrip the consumers goods industries. The Soviet planners, however, accelerated this process very considerably.

The acceleration is however very important as it is one single factor which has influenced thinkers and governments in the Third World. A few facts reveal the speed and pattern of industrialisation that was brought about in Russia. First there was a massive influx of labour force from the rural-agricultural sector to the industrial sector; the numbers engaged in non-agricultural employment increased from 9.9 million in 1926 to 42 million in 1955.11 A comparison with USA shows that in 1926, the industrial labour force in Russia was about one-third the American; in 1955 it was slightly more than the American.12 The direction of industrialisation was influenced by this influx as well as by government decisions. “This formidable expansion necessitated the expansion of productive equipment. For the expansion in equipment to be proportional to the expansion of personnel, it would have had to take place at the rate of 11 per cent during the first ten years. Assuming that the costs of installation are from three to four times the value added to the annual product by


those who use the equipment, it follows that each year the requirements for installing equipment for the new corners to industry would absorb from 33 to 44 per cent of the output of the workers already engaged whose own equipment moreover would have to be repaired and replaced. But worse still: the cost of installation per worker is higher in the basic and heavy industries and it was with these the Russians began.\textsuperscript{13}

This implied that the share of industrial production devoted to consumer need was very small. According to Janet Chapman, the real wages fell by 37 per cent between 1928 and 1937. Then came the war during which there was a steep fall further. After that there was further development but in 1955 the real wages did not reach the level of 1928.\textsuperscript{14}

The discussion above makes it clear that what DRG calls 'universal experience' in either sense is somewhat different. The actual experience of all countries does not indicate that the process begins from what he calls 'a remote point'. Even in Russia and Japan the progress has started with consumer goods industries. Universal experience in the other sense also does not suggest that a beginning has to be made from the 'remote point'. There may be controversy about the industrial development particularly in Russia; but on the whole there is reason to believe that at the time after revolution Russians

\textsuperscript{13} Ibid., pp. 58-59.
\textsuperscript{14} Ibid., p. 60.
launched industrial programme, she had a sufficient industrial development.

DRG is advocating Russian model not because India has already attained the stage for launching the development programme of capital goods industries; nowhere he examines the existing industrial progress of India from this point of view.

That the state of Indian economy might have reached that stage is a different matter. It was not established nor was taken for granted by DRG. He advocates high priority to the development of capital goods sector because he believes that this sector constitutes the foundation of future industrial growth; that it will ensure self-dependent and consistent internal development. In addition he also gives two reasons. First the consideration of defence and second, the existence of favourable conditions. The consideration of defence is not elaborated by him. It was a primary consideration for Russia as stated earlier. Lenin proclaimed that heavy industry was not only "a fundamental basis of socialism" but that without it "we shall perish altogether as an independent country".15 Though India was in need of building up its defence capacity, the need was not so urgent as in Russia. Nevertheless this consideration needed to be taken into account by the planner and DRG was right in drawing attention to this though he did not feel it necessary to elaborate it. As regards the second,

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15 Quoted by E.H. Carr, op.cit., p. 279.
the need for exploiting the raw material and other favourable conditions was obvious and perhaps more compelling. While elaborating this he contends that "even in countries in which the fundamental conditions are not favourable to the increase of basic and capital goods industries special efforts are made to force their growth" (Gadgil, 1972, p. 4). This was an obvious reference to Japan. India was very fortunate in regard to the availability of raw materials and other favourable conditions and therefore he wanted planners to take into account this favourable situation while preparing the development plans. He criticised the First Five Year Plan for being completely oblivious to this fact. "It is surprising that in spite of the favourable conditions for production of basic materials such as pig iron and steel no large planned provision is made for their expansion." (Ibid., p. 4.)

The Second Plan, however, was in accordance with his ideas. It met all the expectations of DRD. In the first place it was large in size. It was his contention that the plan in order to produce an impact must be sufficiently large. He approved the structure of the plan because it was "appropriate and logical" (Ibid., p. 127) i.e. he appreciated the path of industrialisation laid down in the plan viz. "beginning with economic overheads and basic industries and going on to production of capital goods and intermediate products of all sorts" (Ibid., p. 281). He also appreciated (1) the role assigned to traditional and small scale industries, (2) acceptance of the
goal of dispersal and decentralization, and (3) determination to establish socialist pattern of society.

In accepting the Second Five Year Plan model, DRG believed that the emphasis on heavy industry would help to realize his dream of Rural Industrialization. It is necessary to examine this model briefly in order to see how far this claim was justifiable.

The Second Plan model is too well known to need any elaborate description. In the words of Mahalanobis, the main architect of the model, the proper strategy was to "bring about rapid development of the industries producing investment goods in the beginning by increasing appreciably the proportion of investment in the basic heavy industries. As the capacity to manufacture both heavy and light machinery and other capital goods increases, the capacity to invest by using home produced capital goods would also increase steadily and India would become more and more independent of the import of foreign machinery and capital goods."16 Thus a large allocation of investment was made in the heavy industry known as the key sector. The proportion allocated was roughly one-third of the total investment in the industrial sector. Though it was three to four times larger than what it was previously, it was low as compared to those in countries like Russia. Prof. C. Betteleheim deemed it absolutely minimum. India accepted only minimum as

the Planning Commission thought that it would not be possible to go beyond this value under the then existing conditions.

The object of expanding the basic heavy industries was to expand continuously in future the production of both investment and consumer goods with the help of modern machinery driven by power. Mahalanobis emphasized the development of the heavy machine building industry also. In fact he was of the opinion that, if necessary, targets of even steel, coal or transport should be reduced to give higher priority to heavy machines because this would facilitate a much quicker rate of industrialization after four or five years.\textsuperscript{17} About the ultimate picture of industrialisation Mahalanobis was clear. The long term aim, he made it clear, would be to use as quickly as possible the most technologically advanced machinery for the production of both investment and consumer goods. Since this was not possible immediately, he emphasized planning for a transition stage, in which preference was to be given to capital-light and labour-intensive small scale and household industries to create as much employment as possible in the immediate future and at the same time to release capital resources for the heavy industries. This emphasis on small scale and household industries was expected to create employment and supply of consumer goods.

Thus he thought it was possible to plan for increasing both consumption and investment at the same time; a policy

\textsuperscript{17} Ibid., p. 69.
which he thought was the only correct policy in Indian conditions.

It is necessary to underline the emphasis on planning for the transition stage. As the economy expands and employment increases the need of giving preference to labour-intensive but low-efficiency production would decrease. As the supply of power, machinery and other capital goods increases, a gradual and steady change-over would be made to more efficient forms of production by the increasing use of machinery driven by power.

This, however, did not imply preference for large-scale industrial units. It is true that in Western countries the large-scale plants emerged in the course of development itself. Mahalanobis was obviously aware of this course of development. But he did not think this consequence desirable and inevitable. He wanted to plan in such a way that the development of heavy industry would help establishment of consumer goods industries, with as small a scale of production as possible. "It is neither necessary nor desirable to copy the developments in the more advanced countries of America etc. and concentrate production in the large factories. On the contrary, the wise policy would be to adopt a policy of greatest dispersal of industrial production," he contended.

He visualised two classes of industries. One in which the physical scale of production would have to be large; for

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16 Ibid., p. 71.
example steel, cement, railway rolling stock, fertilizers, heavy machinery, motor cars, antibiotics etc. In such cases large-scale factories may be absolutely necessary. However, apparently Mahalanobis seemed to presume that the number of such industries would remain small. The second, which would consist of the rest of industrial field, would be overwhelmingly large. Here preference should be given to the smallest units which are economical from the point of view of the nation as a whole. This section would include different types such as (a) traditional village industries producing consumer goods and services, (b) highly skilled artistic handicrafts and (c) new industries producing modern products. The last one would produce products which are now produced by large-scale factories. As regards the first two categories (a and b) Mahalanobis presumed that specialised tools and equipment, produced by the large-scale modern basic industries would help modernization and improvement in efficiency. The third one (i.e. c) is important and Mahalanobis thought that it is possible to have smallest possible scale even for products which are today produced by large factories. Explaining the trend towards large-scale factory Mahalanobis contends "there is no inherent reason why all efficient machines should be large. With the growth of capitalism, as big factories began to be established in large numbers, the mind of the inventor was more and more directed to large units which would suit the big factories because such factories were in a position to offer large financial incentives for new inventions which would increase their
efficiency of production". 19 Mahalanobis implied that new orientation can be given to research in a planned socialist economy; efficiency and small-scale of production can be found compatible. He noted that the increasing use of electronic technology has already changed the direction of invention towards smaller machines in many fields.

This is briefly the outline of philosophy of the Second Plan and DRG agreed with it. We have to examine first, to what extent it is compatible with his ideas about rural industrialisation which was his ultimate objective of planning and second, his criticism of economic planning which he launched immediately after the Second Plan was under stress. Let us consider the first. The second would be taken up in the following chapter.

It may be useful to recall important features of the concept of Rural Industrialisation formulated by him. Essentially, it implies creation of numerous centres, in each of which a well-planned industrial complex would be established. This complex is to consist of old traditional industries and also non-traditional or modern industries. As regards the first, gradual improvement of technology is advocated. For this purpose DRG upholds the concept of Intermediate Technology. In the case of the latter, latest technology has to be the starting point and then gradually worked out to suit our requirements. All this is possible only if research is organised properly.

19 Ibid., p. 72.
The guidelines for researcher are: smallest possible scale, maximum employment potential, and use of local resources.

Broadly thus the ultimate picture visualized by DRG is similar to that one visualized in the Mahalanobis Model. However, there is some difference in the emphasis. Though Mahalanobis Model attached importance to dispersed and decentralised growth, there was no explicit reference to developing centres, use of local resources and intermediate technology. These are perhaps implicit. Mahalanobis Model implies latest technology to be adopted but adopted to scale requirements. Further, he does not make clear the nature of the immediate link between heavy industry sector and the small-scale and household industries sector. It is presumed that the crucial allocation ratio also represented to a considerable extent the plough back rate in the heavy industry sector (H sector) itself i.e. output of H sector into the sector itself. In the other sector, output of H sector was to be used, if at all, only marginally. "Implicitly a premium was given to H conserving techniques, since in the four-sector model there was a specific employment and income objective and the output-capital and labour-output ratios were higher in the household production of consumer goods sector."20

DRG, however, attempted a clarification on this issue.

He made a further three-fold division of the production goods industries viz. (1) the economic overheads i.e. the transport, power and other systems, (2) the basic industries such as steel, coal and other minerals, heavy chemicals etc., and (3) industries producing the capital goods required by the consumption goods industries. (Gadgil, 1972, p. 286.)

This three-fold division of producers goods industries was made ultimately with a view to raise the per capita availability of consumption goods. By providing infrastructural facilities to all regions alike and basic goods and equipment for starting industries, the producers goods sector was expected to generate the process of development. Therefore, the basic decision which would give shape to the producers goods sector was "dependent on the extent and nature of demand for consumption goods and decisions regarding the technique and location of consumption goods industries" (Ibid., p. 286). Further demand for consumer goods was also to be given a definite direction. In the normal course, in highly inegalitarian society as that of India, demand for non-essential and luxury articles would emerge and take priority over the demand for essential commodities coming from the common people. Therefore, demand pattern needs to be regulated by reducing all kinds of inequalities and raising incomes of the low-income groups. Secondly, decisions regarding location and technique also are not to be left to the operation of market forces but to be taken consciously after taking into account the overall national interest.
Thus deliberate dispersal and decentralisation and relative equality in distribution of incomes constituted, according to DRG, important part of the policy of government, which would influence the demand for producers goods which in turn would shape the development of producers goods industries.

Thus DRG is clear regarding the nature of future development. It may be noted, however, that though he is consistent in developing his vision of future industrialisation, nowhere does he try to provide an empirical base. It is his conviction that it would be technically feasible to meet the demand generated for producers goods if this policy is implemented. While he carefully elaborates this position in 1961, he did not take trouble to verify it empirically. This could have been possible, first, because substantial developments had taken place and adequate data was available in the course of these developments by the time he wrote many of his articles criticising economic planning and performance and, secondly, as a head of a Research Institute, well-developed and financially supported, he could have got this verified relatively easily. Surprisingly, none of the research projects undertaken at his institute was concerned with this matter. In the context of the need to put some empirical contents in his abstract thinking, this absence of effort appears rather puzzling.
CHAPTER VII

POLICY FRAME: OBJECTIVES OF STABILIZATION

Prof. Gadgil approved the size of the Second Five Year Plan as it was sufficiently large to produce an impact. He also approved strategy of the Plan and the structure implied therein "as appropriate and logical". In other words, he endorsed the path of industrialisation vis., "beginning with economic overheads and basic industries and going on to production of capital goods and intermediate products of all sorts" (Gadgil, 1972, p. 281). He appreciated (1) the role assigned to traditional and small-scale industries, (2) acceptance of the goal of dispersal and decentralisation, and (3) determination to establish socialist pattern of society.

Within the first few years, however, he started criticising the government. To realize the goals set in the Plan it was necessary for the government to work out the details of policy without which it was not possible to implement the Plan. DRC alleged that the government was deliberately dodging adoption of such a framework. The consequence, as he summarized, was the emergence of certain trends vis., (1) concentration of capital resources and economic power in a small number of hands, (2) concentration of industrial population in the largest urban centres, (3) highly disparate rates of growth in sectors and
locations, (4) absence of programmes of social security, and
(5) continuing low standards of living. (Ibid., p. 285.)

Almost in a sad pathetic tone he came to the conclusion
that "there is no hope that any of these trends will be reversed
during the next ten years (i.e. in 1960s) if present policies
continue and if they are not reversed during the next five
years or so, then developments will have gone too far to be
reversible". (Ibid., p. 285.)

Why did this happen? "Absence of policy frame" is the
brief reply of DRC. "The most outstanding feature of the
planned Indian economy is ... the total absence of a policy
frame," (Ibid., p. 365) he concluded in 1967 i.e., after the
completion of the Third Plan period. DRC seems to attach great
importance to this aspect of planning.

By policy frame he seems to imply devising and employing
all instruments necessary to attain the goals set in the Plan
in an interconnected manner. In the absence of such framework,
the economy takes route other than the one which leads to the
goals set. Planned economy necessarily implies all kinds of
regulations and controls. But mere existence of some controls
is not important. What is of crucial importance is the co-
ordination of all controls and regulations. Visualizing the
implications of each control and linking it properly with others
is important and this constitutes the essence of what DRC calls
'policy frame'. It is essential to realize that all policy
decisions and instruments used for the implementation of Plan are interconnected. No single decision can be taken in isolation without considering its consequences in other fields and over times. Absence or disregard of this aspect leads to all kinds of anomalies and crisis. It is because of this absence that DRG concluded that in spite of the existence of so many controls in many fields, there was no effort to regulate the economy and that there was no policy frame within which to operate the controls. There were many controls; in fact, too many. DRG complains about "an amazing medlal of restrictions and regulations", but he found that to an "amazing extent the formulation and operation of the regulations and controls are unconnected with each other. Each is framed with a limited specific objective and operated as such." (Ibid., p. 365.)

The most 'notable and fatal' consequence of the absence of policy frame was the failure to maintain stability. Stability here presumably implies price-stability. Stability was essential according to him for successfully planning for development. "If stability is successfully maintained, it will be possible to undertake larger development effort; on the other hand, the development plan must follow the route indicated by conditions of stability." (Ibid., p. 376.)

Stability, however, did not imply that the existing social structure and economic inequalities should remain at the same level. DRG's emphasis on egalitarian social order and decentralization is too well known to need any elaboration. When he
mentions 'stability', we have therefore to understand that he wants stability of an order where social justice is taken into account.

DRO accused the government that instead of devising a comprehensive fool-proof policy framework, the government believed that stability would be secured "if we desist from deficit financing and rely on financial discipline and appropriate monetary and credit policy" (Ibid., p. 367). DRO finds this faith unwarranted. He concludes that "a plan of development must be accompanied by policy measures, other than fiscal and monetary measures for holding prices in check" (Ibid., p. 368). These other measures include socialisation of trade, physical allocation of resources, employment-orientation to the Plan, incomes policy etc.

It appears that in DRO's view policy frame refers to a system of coordinated instruments designed to achieve interrelated goals. Thus there are two aspects of a policy frame: (a) interrelated goals and (b) coordinated instruments to achieve the goals. As far as goals are concerned we have noted above that DRO regarded non-maintenance of stability as a major failure of the absence of a policy frame. We have also noted that this non-maintenance of stability further implies the violation of the principle of social justice, which was a major concern of DRO. We shall, therefore, now consider stability as an objective of a policy-frame and then turn to the second problem of the coordination of instruments intended to achieve
these goals. Of course while analysing the objective of stability we will also comment upon the specific instruments forged to attain a given aspect of the stability objective.

We have to note here, however, that the absence of policy-frame also had consequences other than the non-maintenance of stability. Undesirable consequences of emergence of monopolies, distortion of plan for rural industrialisation, wrong working of public sector units etc., these and other consequences of the absence of policy-frame are obvious. While DRG touched most of the aspects, he did not discuss thoroughly all of them. He paid more attention to price and incomes policy and policy relating to the operation of monopolies. We have, therefore discussed this subject in three chapters. In the present we discuss prices and incomes policy as instruments to attain stability. In the following we discuss his views on monopoly and public sector. In the third we discuss the general political process which, according to DRG, is ultimately responsible for the failure of adoption of policy-frame.

Price Policy

The price policy must be comprehensive covering all kinds of commodities. The policy must not be only to stabilize prices of a few commodities at the existing level but stabilize the entire price-structure after taking into account the relationships inter se. DRG divides commodities into three categories viz., (a) essential goods of mass consumption, (b) agricultural
products, (c) intermediate and capital goods. The first includes both agricultural and non-agricultural products, e.g., foodgrains, vegetable oil and sugar, and cloth and kerosene. The maintenance of a stable cost-of-living index depends on successfully stabilizing prices of these commodities. But the maintenance of stability of these prices depends on the stability of prices of many other agricultural products. Thus, stabilization of prices of foodgrains and oilseeds cannot be successful without controlling the prices of competing crops such as cotton, jute and sugarcane. The relative price-structure is important. It is important not only for stabilization but also for pushing agricultural production in specific directions. In regard to both sets of prices, DRG has one single remedy, viz., "to devise a system of purchase and/or procurement, storage and sale/or distribution of all major agricultural products of the country through which adequate supplies of these products required for national policy purposes would be acquired and the prices of the products stabilised. The acquisition of supplies would be for purposes of internal distribution as well as for export." (Ibid., pp. 377-78.) In other words what DRG thought important was "to establish a comprehensive system of socialised purchase, storage and sale of agricultural products". (Ibid., p. 378.)

We have discussed this problem in detail in Chapter IV. Suffice it to state here that some kind of socialised trade is necessary in regard to agricultural products and particularly
in regard to foodgrains. India at least in earlier years of planning was not self-sufficient in regard to food. Further, food production was subject to wide fluctuations from year to year due to the vagaries of monsoon. Together with this because of the control of moneylender-cum-trader on the economy, prices were subjected to fluctuations from season to season and even from month to month. Even in the absence of any serious effort on the part of government to undertake substantial investment programme this situation would have given rise to a steady rise in prices. Some kind of socialization of trade was therefore essential; this implies establishing control over marketable surplus and undertaking equitable distribution through the government machinery. DRC is, therefore, right when he emphasizes that monetary and fiscal policies are inadequate to deal with the price problems under such circumstances. In fact, one can go a step further and state that in the absence of policies for socialization of trade and to adapt the pattern of production and employment to the pattern of demand in a growing economy, fiscal and monetary restrictions may preserve stability only at the cost of retarding or even preventing economic growth.

As regards the prices of manufactured goods, DRC places emphasis on increasing production through all techniques as in a 'common production programme' and orienting effort to production of mass consumption goods at cheapest cost. He advocates measures such as "severe limitations on varieties of products
and on standardization of sorts to increase production with the same equipment" (Ibid., p. 378). In this field too DRG feels that prices should not be left to be determined by market forces. For this class of commodities also, socialised procurement and distribution system is necessary. He feels that "procurement from manufacturers for maintaining supplies to the public retail system should prove relatively easy" (Ibid., p. 378).

We have already discussed DRG's view on increasing production through the existing technologies. That such an emphasis leads to higher employment and increased production of consumers goods, can be conceded to a great extent. One can also concede the point that once prices of agricultural products are stabilized, there is a great possibility of maintaining price stability of the bulk of manufactured consumers product. For example, stabilisation of cotton prices helps stabilisation of cloth prices. However, stabilising agricultural prices (for example, that of cotton) is only a step towards stabilisation of prices of finished products (cloth in this case). Much depends on the role of industrialists and trading outlets. DRG is, therefore, right when he pleads that some kind socialisation of distribution channels in regard to manufactured products is also essential.

DRG, however, does not spell out the details regarding the procurement system in regard to this class of goods. One is not sure whether he pleads for total nationalization of the distribution channels. We have discussed the pitfalls in regard
to nationalisation of wholesale trade in foodgrains in Chapter IV. There is no point in repeating the arguments here. In regard to the procurement of manufactured articles, more or less, the same problems crop up. In fact in regard to manufactured articles the problems are much more complicated. In the first place, the manufacturing sector is not one homogeneous group. It consists of industrial sectors which differ from each other in regard to technology, scale, location and the nature of product. Each industry further consists of units which have different technologies. These factors would result in cost differences among industrial enterprises. The most illustrative industry is that of textile. DNG does not elaborate how socialisation of trade should be carried out in the context of this variety and complications. It may be presumed that he wants socialisation of trade only in regard to commodities which are consumed by the masses such as cloth; but even in regard to these socialisation of trade is beset with difficulties. DNG is silent on these matters. All that he states is the regulation of private sector so as to serve the national goals. Since he is not advocating wholesale nationalization it may be presumed that he is only arguing for effective regulation. In his later writings too, it is clear that he wants regulation of competition so that the interests of the consumer will be safeguarded. He comes closer to the view expressed by Dandekar. As Dandekar puts it "nationalized trade in any commodity, particularly of mass consumption, must be kept free,
as far as possible, from bureaucratic control and political interference. It must function on the principle of the market."\(^1\)

Prof. Gadgil attaches special importance to the production of intermediate and capital goods. He contends that the lack of stability in regard to the prices of this class of commodities is primarily due to the faulty implementation of the import policy. "The existing situation," he states "is the result chiefly of the policy of limiting imports to save exchange and of encouraging indigenous production through a quantitative restriction of imports". (Ibid., p. 378.) He has no quarrels with the objectives of import policy which, as stated above, are to save foreign exchange and encourage indigenous production. The policy of quota restrictions is justified according to him, as "it enables to discriminate in a more detailed manner than would be possible through protective tariff duties, and even more, that it avoids raising the price level of imported supplies in a manner that a regime of high protective duties would" (Ibid., p. 378). His grievance is that this advantage was lost because no "follow-up action" was taken. "A general sellers' market for industrial products, especially those in which imports play some part, has been created and the large or small margin available in any product is fully realized and

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shared by producers and traders in the product in varying proportions. The internal prices of these goods rule at levels corresponding to those of high protective tariffs. Consequently, the State loses the income it would have obtained through excise duties, the consumers are mulcted and above all, the economy is deprived of those developmental effects which would have followed a regime of relatively lower prices." (Ibid., p. 378.)

We shall examine this contention below.

Import restrictions is one of the important instruments in the planning armory. There can hardly be any doubts about the need of adopting import restrictions. Myrdal in his extensive study of poor countries comes to the same conclusion: "... if India or Pakistan left its import composition to be determined by demand in relation to prices set outside its boundaries, it would be giving up one of the most important tools in its planning armory. The imports that are now prevented or curtailed would increase so much that not enough foreign exchange would be left for the import of essential consumer goods, not to mention development goods." Therefore, 'a regime of prohibitions and quantitative restrictions of imports' is necessary not only for a short time but for a considerably long period of development. "Foreign exchange difficulties are not a temporary exigency but a normal and permanent condition in very poor countries, pressing economic development to the limit set by

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all the attendant circumstances."

DRG states in precise terms the requirements of such a regime. "A development plan associated with continued administration of quantitative restrictions of imports requires (1) an early cessation of foodgrains and cotton imports through an appropriate production policy and through measures of control and rationalization of demand; it requires (2) both an integrated and detailed scrutiny of the programme of industrialization in the public and private sectors and in extreme cases even of units already set up so that present and future imports fully and only serve the needs of the long-term development plan. It also requires (3) that effective steps are taken to eliminate the extra gains obtained by private parties as a result of quantitative restriction of imports." (Gadgil, 1972, p. 369.)

The place of import restrictions in the total development plan is very clearly marked. The policy of import restrictions cannot work in isolation; it is one of the instruments of planning and as such its effectiveness in attaining the goals of planning is dependent upon the clear perspective of the way it can be used. A developing economy necessarily faces a scarcity of foreign exchange. The development plan involves investment, which creates demand for various kinds of goods and services. Many of these have to be imported. In many cases foreign exchange is required to finance import of even essential commodities. Since only a limited amount of foreign exchange is
available and since the scope for earning exchange is also severely limited, the government is faced with the problem as to how to make the best use of the limited amount of foreign exchange. The obvious way out is to use it mainly for development goods which cannot be manufactured within the country. The demand for other kinds of goods has to be met by increasing domestic production. Particularly when there is a potential for increasing production of such commodities at home, all that is required is to plan effectively for the same. In the case of India, potential exists for increasing production of foodgrains and industrial raw material like cotton. It, therefore, follows that scarce foreign currency should not be used for importing foodgrains save under exceptional circumstances. DRI is, therefore, right when he emphasises that development plans should aim at cessation of foodgrains and cotton imports at an early date so that larger imports of development goods becomes possible.

The problem of increasing agricultural production is, however, difficult, and in any case it is not possible to increase the production within a very short time. Irrigation works, which constitute an important part in the production plan take a long time to complete; there are also difficulties which can be classified as non-economic or social and human. All these have been discussed at the appropriate place in the present work. All these indicate that the need to use foreign exchange for the import of foodgrains and industrial raw
material cannot be eliminated totally and certainly not in a short time. Nevertheless one can agree with DRG that planning for an early cessation of import of these commodities is very vital.

Relationship of import policy with the policy of industrialisation is obvious. In fact, import policy has to be formulated in the context of the requirements of industrialisation. DRG contends that licensing of imports (1) created in the economy largest area of corruption and illicit gains, (2) added greatly to the compulsive need of imports for maintaining the units set up, and (3) allowed heavy imports of capital and raw material under the pretext of gaining or increasing export markets. (Ibid., p. 369.)

DRG does not substantiate his conclusions but the evidence was not hard to find.

The scarcity of foreign exchange entails a direct control system and presumably it was supposed to have been in operation since the inception of the Second Five Year Plan. The control system requires a well-defined set of principles and criteria based on a system of priority. Bhagwati and Desai, however, concluded after a detailed survey and analysis that no such principles and criteria were followed in practice; the most important modus operandi consisted of "simple administrative rules, history and pragmatism at the decision level". 3 The

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scrutiny of the bulk allocations, in the first place revealed “absence of clear, economic criteria for determining import allocations. ... The further allocations, from these bulk allocations, among different industries were equally without any clear rationale and remained essentially ad hoc and discretionary”. The authors concluded that the control system worked on (1) incomplete and unsystematic information, (2) lack of any economic criteria and (3) a series of ad hoc, administrative rules of thumb operated by a time-consuming bureaucracy.

The corruption, the import system gave rise to, has become well known and needs no elaborate mention. The Estimates Committee of the Lok Sabha in its 48th Report (1963–64) gave an interesting account of the malpractices resorted to by persons in Import and Export Trade. It listed 25 types of malpractices, which include those from forging all kinds of documents to smuggling and offering illegal gratification to the staff. The corruption of the bureaucracy itself is another feature of corruption. "The extent of such corruption ... increased significantly with the proliferation of controls, undermining honesty and creating cynicism concerning planning within the country." The restrictions were further evaded through

4 Ibid., p. 291.
5 Ibid., p. 308.
6 Ibid., p. 310.
"smuggling past the customs by false declarations and even by getting demands for imports suitably specified (by misrepresentation to the sponsoring authority) of commodities with greater premia, whereas the non-transferability of imports and import licences was evaded systematically through transactions in black markets." The Raj Committee on Steel Controls points out again the manner in which such illegal demands were made and transfers effected. Even the State governments were not exempt from these practices.

It is equally substantiated that import policy was not formulated to suit the total industrialisation plan. The two most important objectives were to promote small scale industries and to prevent foreign exchange being frittered away on consumers' goods. The imports policy in practice ignored both these objectives. The small scale sector, which received so much attention at the hands of planners, was neglected by policymakers. Bhagwati and Desai state that "there are a great many reasons to conclude that the control system discriminated against the small scale sector". The available evidence included the reports of (a) the International Perspective Planning Team (1963), (b) The Estimates Committee (1963-64) 48th

7 Ibid., p. 310.
8 Report on Steel Control (Raj Committee), October 1963, pp. 42-43.
Report, (c) The Mathur Report and finally (d) the Maj Committee on Steel Control.

Regarding the objective to prevent foreign exchange being frittered away on consumer goods, the practice was found quite contrary to the principles accepted. Three important observations have been noted: 10

(1) While imports of manufactured consumer goods indeed went down, these were frequently offset by growth in domestic production of the same and other consumer manufacturers; while import of luxury articles was banned, high cost domestic capacity for producing the same item was created and in creating and operating this, large foreign exchange was spent.

(2) The maintenance imports necessary to support current production of domestic consumer goods industries were not negligible.

(3) There was little evidence that at times of serious curtailment of foreign exchange availability more than a few consumer industries were deprived disproportionately of their import allocations.

The control system, as it operated, also led to many other consequences which vitiated the industrialisation plan. Some of these consequences were obvious and to a certain extent unavoidable; these are: delays, administrative and other expenses,

10 Ibid., p. 306.
inflexibility and lack of coordination among different agencies. Besides these, there were other important results. The first among these was the elimination of competition, either foreign or domestic. This led to (1) elimination of incentives to reduce costs per unit of production, and (2) preventing production from being concentrated in the most efficient units and industries.

Secondly, the system encouraged bias towards creation of capacity despite under-utilisation. The primary factor that was responsible for this trend was the tendency on the part of authorities to relate equity in allocation to installed capacity, as a simple guide in many cases.

Third, the system encouraged bias in favour of industries using imported, as distinct from indigenous, inputs.

Fourth, the system because of its policy of preferring indigenous product to imported ones, resulted into somewhat automatic protection, which could be anticipated by many producers.

Finally, the system was found to discriminate against exports. The exportable items had to be produced from the inputs produced domestically; these were not necessarily of good quality. This to a certain extent made the final product less competitive in the world market. This was particularly the case with new exports, in the engineering industries.

All the above-mentioned consequences affected the indus-
trialization plan. DRG was, therefore, right in his insistence on detailed planning after taking into account the consequences of the restricted import policy. He, however, does not spell out these details nor does he give an outline of such a policy. DRG specifically mentions an important consequence viz., heavy imports of capital and raw material under the pretext of gaining or increasing export markets. Prima facie he appears to regard this as undesirable. It is true that one of the chief instruments of export promotion was 'the import entitlement scheme', under which eligible exporters received import licences, fetching high import premia, pro rata to the value of exports effected. Under the scheme, the imports increased.

"An inefficient system of export promotion, that was selective but in a way unrelated to any notion of comparative advantage, was adopted through the import entitlement schemes (now discontinued) and the import replenishment schemes. An outrageous example was the entitlement to import high premium fetching dry fruits given to exports of certain non-traditional items such as some chemicals and engineering products. Certainly imported dry fruits were not items of mass consumption."11

Impact on income distribution of such policies was

certainly in favour of rich and powerful groups. Thus it is the big industrialists and the large industrial houses that could afford to maintain liaison and contact with import control machinery at Delhi. It is likely that a substantial part of the growth in traffic on the Indian Airlines trunk routes arises out of business travel in connection with import and/or investment licences, a growth that is promptly accommodated by investment in faster planes and better ground facilities. Paraphrastically, it is as well to remark that running an airline in the public sector at a huge loss (however computed) served no social purpose, certainly not in helping the poor. That the indiscriminate import substitution strategy was wasteful of resources is evident from the following vastly under-stated comment in the Draft Fourth Plan: "The argument that a number of industries behind the tariff and non-tariff barriers could not stand on their own is not without a basis. They partly reflect our distribution of incomes and partly testify to the failure of our regulatory mechanism."\(^\text{12}\)

There is, however, the other side. The policy enabled the Indian producers to increase exports. This was no doubt an advantage; there were however certain consequences. Bhagwati and Desai, after a special evaluation of this scheme, concluded that "the import entitlement scheme served 'to remove, from the Indian scene, the widespread 'elasticity pessimism' which had characterised earlier thinking and policies. By bringing the

\(^{12}\) Ibid., p. 387.
whole range of products into the field of export, quite apart from offsetting the increasing cost disadvantage of even traditional exports such as cotton textiles, the entitlement schemes (and associated fiscal measures) managed to get export performance off the hook which an over-valued rate constituted.13

Though this is true, one may rightly raise the question, whether these were an efficient way of promoting exports. We have to bear in mind that the import entitlement schemes essentially were prepared in the framework of an over-valued exchange rate. Basically what was needed was the firm control over internal prices. It was because of failure in this regard, as DRG pointed out, we were forced to devalue Indian currency and in spite of devaluation and export promotion schemes, we continued to face the problem of balance of payments. (Cadgil, 1972, p. 368.)

One is inclined to agree with DRG in this regard. It may be true that Import Entitlement Schemes helped to diversify our exports. But if this has led to the distortion of industrialisation plan, it was not worthwhile. Moreover this cost, in terms of distortion of industrialisation programme, was avoidable; the same objective vis. to increase and diversify exports could have been achieved by adopting a long-term policy. DRG insists on this and argues that sound long-term policy, in place of ad hoc decisions, would be better.

The lines on which such a long-term policy could be formulated is not fully developed by him; but some idea of it can be obtained. In the first place he observes that Indian exports are still dominated by traditional items, viz., jute manufactures, tea, cotton manufactures, oil and oil cake, tobacco and other agricultural products. In the recent past, the articles which have acquired some importance are sugar, coffee — which are related to agriculture — and iron ore, art silk fabrics and machinery. In regard to agricultural products, DRG advocates firm control over domestic consumption and over prices of these products. Without this, it is not possible to think of increasing exports on a substantial scale. He cites the example of sugar. "... advantage could not have been taken of the high international prices of sugar if distribution of sugar within the country had not been fully under the control of government" (Ibid., p. 369). He extends the same argument to machinery and observes that even in regard to new exports like this, restraining domestic consumption is essential.

Secondly, he argues that we have to write off certain items; he mentions mill-made cotton manufactures and art silk fabrics; the government allowed imports of capital goods and raw material in order to stimulate the exports in this class but DRG contends that since even this measure failed it is better to write off these items from the export list.

Thirdly, there is the class of goods represented by engineering goods and machinery manufactures. In the manufacture
of these, import component influences the prices of final products. "... prices are expected to rule high because of higher costs and also because the sealing off of imports creates a sellers' market internally" (Ibid., p. 370). If the prices of final products are very high, as a result of this, then naturally scope for exports becomes severely restricted. The proper line of action for this according to DRG is "detailed allocation and pricing control of imported raw materials and components and of the finished products" (Ibid., p. 370).

Incomes Policy

Incomes policy is the other side of price-policy. The latter is not complete without the former. In the 'policy frame' therefore, DRG gives an equally important place to Incomes Policy. We will consider his view in this regard, below.

DRG refers to four elements of the Incomes Policy:

(1) For agricultural producers, he believes, stabilisation of prices leads to stabilisation of their incomes.

(2) For self-employed in non-agricultural occupation, he advocates planning for providing markets and for their integration with the industrialisation plan.

(3) For wage-earners of all kinds, he insists on giving employment orientation to plan.

(4) Finally, he recognizes 'the reverse side' of Incomes Policy, i.e., need to check incomes of producers and traders in advancing sectors.
Let us consider each of these separately and then take an overall view of his thought in this connection. For discussion purpose we will consider agricultural producers first; and self-employed and workers together subsequently and third the reverse side of Incomes Policy.

(1) Agricultural Producers: According to DRG, "for agricultural producers, as a class, stabilisation of incomes has to be achieved largely through stabilisation of prices. Efforts have also to be made to add an insurance element to cover risks of variations of physical production" (Ibid., p. 379).

While one tends to agree with this statement, one cannot ignore some of the serious limitations arising out of peculiar Indian conditions. In the first place, in an economy where substantial portion of the output of some essential commodities is produced and consumed outside the market system, price control may have relevance only for those who produce mainly for marketing as against those who produce mainly for their own subsistence. We have discussed this problem at length in Chapter IV. We will not repeat the argument here but some relevant facts may be stated. Price policy as an instrument for stabilisation of incomes of small farmers can be effective in two ways. If the prices are stabilised, income obtained through the sale, may be stabilised. In the case of small farmers, the proportion of produce sold is quite small, and as Nathur and Eshkiel have pointed out this proportion has an inverse relationship with the price. The small farmer is also
a buyer of foodgrains and the retail price of foodgrains, if
stabilized or subsidized, would help stabilization of real
income of this class. As we have seen there are difficulties
the small farmers have to face, in taking his produce to govern-
ment agencies; he may prefer to take his produce to the trader-
sicum-moneylender. In these circumstances government operations
in procurement may not be of any help to the small producers.
What is, therefore, necessary for the government is to devise
ways and means to bring this class of farmers in the network of
purchasing centres so that they can get the advantage of proc-
curement price. So far as consumption of foodgrains by this
class is concerned, the difficulties presented are relatively
less. They either consume their own produce or purchase in the
retail market. If the network of fair price shops is widely
spread to cover as many villages as possible, and if these shops
are kept well-stocked, the poor farmer can get advantage of
government operations.

The problem of farmers, who have substantial marketable
surplus, is different. They are not, by and large, buyers of
foodgrains but they have to depend on market for buying what
they do not themselves produce. Relationship between prices
of what they produce and what they buy has to be, therefore,
worked out properly. In so far as they sell marketable surplus,
government operations would help them to stabilize their incomes
which get through such sale. Much depends therefore upon the
effectiveness of government operations and the level of prices
fixed. If the government succeeds in stabilising food prices but does not succeed or succeeds less in stabilising prices of non-food items, the real income of farmers—of all classes—will remain far from being stabilised.

The level at which agricultural prices are sought to be stabilised must also take into account the terms of trade between agriculture and industry. If market forces are allowed to operate, many believe, that there is a possibility of the terms of trade turning more favourable to agriculture. "If this happens," writes Dandekar, "it should be permitted and not prevented. Among all the incentives for agricultural production, the most effective and the most economical is a higher price or at least a proper price, that is a price which the market is willing to bear. Rather than paying agricultural products, particularly foodgrains, their proper market prices, past policies have tended to pay them arbitrarily low prices and then to compensate by several forms of subsidies, extension services and credit which does not return. This has promoted wrong motivations among farmers and has in general done harm to the productive effort."14

Thus, there are difficulties and limitations; while small farmers fall outside the scope of the operation of stabilisation policy, farmers with marketable surplus, need stabilisation of their incomes at a proper level. DRG is not unaware of these

14 V.M. Dandekar in Growth of Indian Economy in Socialism, op.cit., p. 467.
limitations. He pleads for 'remunerative prices' which presumably intend to promote favourable terms of trade to agriculture; he, however, does not go into the details of the discussion about the terms of trade between agriculture and industry.

In the whole discussion made by him, it seems that he is primarily concerned with farmers in low-income groups. While one can appreciate this concern, nowhere one finds an adequate discussion about the possible solution for the same. All that he suggests is "to reorganize the base of their production structure and to eliminate fluctuations" (Ibid., p. 317).

From this dispersed writings on this subject, this statement primarily implies, as stated earlier in Chapter III, bringing together in a compact block small holdings, organizing cultivation of the same on same kind of cooperative basis, arranging easy credit facilities and institutional support for marketing etc. All this no doubt would go a long way in helping small farmers. DRC is nowhere advocating drastic changes in the structure such as lowering down ceilings on land holding, or nationalization of land etc. He, however, realizes that ultimately the solution lies in rapid industrialisation which would absorb increasing manpower which is redundant in agriculture. Till then there is really no possibility of ensuring adequate or proper income to this class of farmers.

(2) **Self-Employed and Wage-Earners:** Price stabilization of foodgrains may not significantly help income stabilization of agricultural producers as a class, but it may significantly
contribute to the stabilization of incomes of the workers. It is well known that a large proportion of income of an average worker is spent on food and allied products. But price stabilization is only one aspect of income stabilization. The other important factor is the availability of work. The work, either in one's own occupation or on wage-basis, must be continuous and permanent. This class may broadly be divided into three categories: (a) self-employed persons, (b) landless, unskilled labourers mostly in the countryside, and (c) labourers in the industry. As regards the first, DRC recognizes that "the majority of self-employed in non-agricultural occupations such as rural and other artisans face problems not only of price but also of markets and of techniques of production. Their problems can be resolved only through integrating the solution in an appropriate plan of industrial development. Such a plan should aim at avoiding technological unemployment and utilizing existing skills and equipment to the utmost while continuously transforming them." (Ibid., p. 379.) We have dealt with this problem at some length in Chapter V.

DRC does not discuss the problem of self-employed persons in modern small-scale sector while discussing the Incomes Policy. Perhaps he might not have thought it necessary. This class has been given an important place in the total industrialization plan and, therefore, DRC might have presumed that no special consideration be given to the problems of their incomes. He might have also presumed that in an integrated industrialis-
ation plan, the problem would be adequately taken care of.

As regards the large class of unskilled rural workers, the major problem is chronic under-employment and low wage-level. Arrangements of essential supplies in adequate quantities and at a stable price partly meet only one aspect of their problem. If this is supplemented by employment guarantee, the problem is met more than adequately. DRC advocates employment orientation to the Five Year Plans so that this class would get continuous employment. Adequate wages can be guaranteed only if government provides large-scale employment to these people, which would automatically enhance wage-level prevailing in the private farm and non-farm employment. Giving employment orientation does not mean just creating employment. DRC is keen on making this point clear. According to him employment orientation means "... taking a long-term view of the problem and planning the investment of resources for development in such a manner that available labour supplies are utilised to the greatest possible extent" (Ibid., p. 379). No special schemes such as 'crash employment schemes' are of any use. It is a wastage according to him. Employment is a function of development, i.e., "the gradual solution of the problem of providing full employment is ... to be found through the proper formulation and implementation of the development plan" (Ibid., p. 373). He denounces the rural works programme, prepared with a view to provide employment for its own sake to the rural unemployed; "the pathetic belief" shown by the government in such programmes,
he contends, exhibits lack of understanding of the development process. The works providing employment must be properly integrated with the national development plan. This aspect of development planning has been discussed in Chapter V.

To state the argument in brief, the development plans of the 1960s and even early 1970s of the developing countries considered employment as a "residual" factor which can be determined and calculated once all other decisions have been taken. In contrast to this, the new approach starts with the facts of poverty and unemployment and concentrates on developmental efforts on the traditional and non-modern sectors. It is now recognized that employment problem can be tackled effectively only within the framework of a comprehensive and integrated strategy. Though this is a simple general truth, it required a few decades to realize it. In practice the planners assumed that minor changes in the plans would take care of employment problem. ILO's world employment studies, referred to earlier, have helped to establish, along with the works of economists all over the world, the need to prepare development plans in the context of the large-scale unemployment and under-employment.

What is of direct relevance here is the quantitative relationship referred to earlier between the income distribution on the one hand and the employment problem on the other - a relationship which was different from the usual one hypothesized in the economic literature. The conventional relationship was
based on the assumption that people with higher incomes saved more and that therefore a skewed income distribution would be to get more savings and thus more investment and would therefore be good for economic growth and employment. The experience later revealed that the assumption was unrealistic. High incomes frequently meant high expenditure on consumers and luxury goods - either imported or produced domestically in capital-intensive industrial units. On the other hand, expenditure pattern of low-income groups was found to provide more stimulus to economic growth as the money was spent on locally produced labour-intensive products. "In this manner the uneven income distributions ... not only reflect the employment problem but also cause it to exist."  

The class of workers in industry is not a homogeneous one. On the one hand there is a large number of workers whose incomes are poor and there is uncertainty about continuity in employment; on the other hand there are employees getting wages which are excessive; over and above there are employers whose incomes are fabulous. DRG states that the objective of incomes policy is "to stabilise incomes in general, to augment, to the extent possible, the incomes of the disadvantaged and to curb those of the rich". (Ibid., p. 380.) He does not feel the need of going into the details such as, for example, what should be the relationship between productivity and incomes.

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He makes a generally acceptable point that incomes of the rich have to be curbed for two reasons: one, it would prevent "the warping of production structure" and second, there is no guarantee that those who have high incomes also save a higher proportion of their incomes and that this proportion is available to the government for investment purpose according to the plan. It is true that in a poor economy, where inequalities are great, production of goods which are required by poor masses is neglected while production of those which are less essential and luxury articles is encouraged; because profit margin in this kind of production is high. Apart from this it is now generally agreed that greater equality is essential to greater productivity. Myrdal concludes, for example, that an increase in equality would help rather than hinder development. 16

As regards the second reason again we find, as stated earlier, a general support.

As stated above, DRG has not touched an important aspect of Incomes Policy, viz., the relationship between productivity and wages. One gets an overall impression that DRG is principally against any wage rise so long as minimum wages are not ensured to all and even then taking into account his insistence on egalitarianism, he would not like to have more than essential gap between minimum and maximum wage in the economy. However,

as an economist committed to consider all aspects of economic policy and planning, his omission to consider this problem specifically and directly appears inexplicable.

This is a complicated question. It has received attention from the government from time to time. The Steering Group on Incomes, Wages and Prices Policy which submitted its report in January 1967, 17 laid down as a general rule that we should aim at regulating movements in money incomes so as to keep incomes in step with trends in national productivity moderated to some extent by the need to maintain a growth of consumption slower than productivity. In measuring productivity, the report urged to take into account both the long-term and short-term trends. It recommended a five years' moving average of the rate of change of productivity in the economy as a general guide for regulating changes in money wages. The trends in productivity are to be considered as outer limits for wage and income adjustment so as to prevent increases in wages and incomes from generating inflationary pressures. The gains in productivity should not be entirely absorbed in immediate increases in consumption; because we have to provide for saving and capital formation.

There are, however, several problems which arise while considering the above suggestions.

One of the major problems is how to adjust wage level in different sectors and industries. Productivity rises at varying rates in different industries and there would be pressure to raise wages at a higher rate in those industries where productivity rises at a higher rate. The report recommends to regulate increases in wages and money incomes in different sectors and industries at a rate which takes account of the growth of productivity in the economy as a whole but at the same time it is emphasized that we should consider to some extent rise in productivity in the sector or industry concerned.

There should be no difficulty in accepting that the productivity for the economy as a whole is an intricate concept. Further, the need to consider basic minimum or need of social amelioration may leave no margin to raise wages. Again the need to save more for future growth also may prevent rise in wages.

A similar suggestion was made by NCAER when it advocated a norm of productivity oriented wage, based on the average productivity change, taking into account the anticipated growth of output and employment. A productivity-oriented national wage norm, the Council believes, "creates a better and enlightened atmosphere for all wage negotiations and would simply mean that labour, management and the nation would know in advance what the anticipated growth of output is and what labour can expect by way of increase in the years to come if their performance
matches the anticipation."18

The suggestion, however, is not without serious limitations. The main difficulty involved is that the expected improvement may not materialize or there may arise a competing and more urgent claim on the improved productivity. For instance, in U.K., the Council on Prices, Productivity and Incomes recommended in 1959 that the increase in productivity expected to take place at that time be used to bring about price reduction rather than wage increase. 19 Further the productivity index itself may not be a correct guide; it may show rise when output and input both increase or when both fall; if the input decreases more sharply than the decrease in output, the index would show an increase. Conversely, if output increases and the value of employment increases more sharply, the index would fall.20

(3) The Reverse Side of Incomes Policy: DRG rightly emphasizes the need to check rising incomes and even to reduce incomes in certain sectors of the economy. It is true that in certain sectors, wages are high even according to the international standards. In India, what is important is to lay down a wage-structure for the economy as a whole; it is also necessary

20 Ibid., p. 522.
to consider what should be the gap between maximum and minimum wages. To reduce wages requires a firm action. It is common experience that wages behave as if they have ratchet which permits them to move only upward and not downward. It is, therefore, difficult though not impossible to implement what DRO calls the reverse side of Incomes Policy.

**Concluding Remarks**

DRO thus advocates price and incomes policy in order to maintain stability, which is essential for rapid development. However, these are not the only instruments useful for maintaining stability. There is a need to consider the whole armoury of instruments and prepare policy frame to use them in a co-ordinated manner. In the peculiar context of Indian conditions, price policy and also incomes policy to a great extent, has to be comprehensive as much as to include even physical allocation of resources. In effect thus price and income regulations include regulations of all kinds. The government did not think of such a policy-frame. Therefore crisis continued to occur frequently. Every time the crisis arose, government tried to meet it essentially with ad hoc measures. There was no well-thought/long-term policy to meet the crisis occurring from time to time. DRO thus was right when he stated that while the Second and subsequent Plans provided a basis for many sound investment decisions, the plans did not give enough guidance in managing the economy over shorter periods. The short-term problems were never seriously considered. As a result, the
management of the economy was a matter of somehow getting over periods of extreme shortages and stress, rather than a vital component of development policy and an essential means for fulfilling the important long-term goals. One gets support to this view from many critics. Tarlok Singh, who had a long association with the planning process in India, also came to this conclusion. Like DRC he too came to the conclusion that lack of policy-frame to manage the short-term problems of planning, was the principal deficiency of Indian planning. He, however, emphasized that it was not merely a question of holding prices or maintaining buffer-stocks or controlling credit and so on; it was a matter of coordinating all the instruments and policies. The key to orderly development has to be found mainly "in the improved management of the economy and in a much closer link than in the past between policies and investments for the short-term with those for the long term, each set being refined and adapted so as better to harmonise with the other".21 He specifies the areas of management and the instruments which can be employed for attaining coordination. For the sake of clear understanding of what DRC calls policy-frame, it may be worthwhile to reproduce the same.

A: Consumption

(1) Adequate supply of foodgrains at national,

regional and local levels, at gradually rising levels of nutrition;

(2) Supply of essential consumer goods, notably cloth, sugar, kerosene and edible oils;

(3) Restraining demand for particular commodities and services for reasons of public policy e.g. luxury and semi-luxury articles of consumption, use of electricity, etc.

B: Production

(4) Supply of key inputs for agriculture, especially fertilizers, pesticides, seed, electricity, cement and implements and machinery;

(5) Supply of agricultural raw materials for industry, especially sugarcane, cotton and oilseeds;

(6) Supply of critical industrial materials for the effective utilization of existing capacities:

(a) Materials produced in the country like steel, cement and coal; and

(b) Largely imported materials, such as tool and alloy steel, copper, lead, zinc, sulphur, rock phosphate, mercury, rubber and rayon grade pulp.

C: Inter-Sectoral Coordination

(7) Distribution between exports and domestic requirements of exportable commodities which may be in relatively short supply, such as sugar, oilseeds, and oil;

(8) Joint planning for optimum use of available capacities in different industries, including economic linkages between production units at different levels of technology;
(9) Coordinated use of available capacities in industry, transport and power.

D: Employment and Construction

(10) Protection and expansion of employment;

(11) Supply of essential materials for public and private construction, including housing.

Unless and until all these areas are managed simultaneously, stability and growth are not ensured. The instruments that can be used for this purpose can be enumerated as follows:

(1) Fiscal policy: taxation and borrowing; public expenditure policies; deficit financing

(2) Monetary policy: credit policy for busy and slack seasons; banks and other financial institutions; capital market; interest rate policies

(3) Import and export policy: regulation of imports and conservation of foreign exchange; incentives for export; allocations for export

(4) Pricing policies: pricing of foodgrains and commercial crops; pricing of products of basic industries; pricing policies for public enterprises; pricing of transport and energy

(5) Income and employment policies: income structure in the public and private sectors; wages policy; regulation of profits and dividends; employment and labour market policies

(6) Maintenance and regulation of production and
supplies; regulation of primary commodity markets; organization of wholesale and retail trade; food procurement and distribution; public distribution systems for essential commodities; material planning; action to counter economic malpractices.

It will be seen that for maintenance of stability and attaining growth, each of the instruments is useful. The utility and effectiveness of each differ from area to area; no area can be managed exclusively by one or the other instrument. Moreover, it may be necessary to use all the instruments simultaneously.

For the successful operation, up-to-date and exhaustive knowledge of the different sectors in the economy is very essential. Many of the imbalances occur in circumstances and in sectors, the knowledge of which is many times too inadequate to take any action. Relatively it is easy to know the details of the modern or the corporate sector. "Yet only a fraction of the total economic activity takes place in the modern or the organised sector. We have at present only a vague idea of the contribution and day-to-day problems of economic units in the household and unorganized sectors of the economy. Surely this must be one of the main reasons for the failure to extend the concept of economic management to include consumption, production, employment and provision of shelter across the entire population and the whole range of economic activity."

22 Ibid., p. 236.
Prof. Gadgil did not elaborate the implications as Tarlok Singh, for example, did. It appears that DAG did not even make efforts to distinguish between goals and instruments. However, his insistence on policy-frame is well known. He also analysed several important aspects of the problem. Logically worked out, the details relating to policy-frame visualised by him, would be as stated above.
CHAPTER VIII

POLICY FRAME: MONOPOLY AND PUBLIC SECTOR

Monopoly Capital and Concentration

DG wrote concentration of economic power and strengthening of monopolistic positions as important features of the economic scene of India. He makes an independent analysis of this phenomenon. It is proposed to deal with this below.

Let us first note in brief his view in this matter.

He starts with noting the "fundamental difference" between monopoly and concentration of economic power. "Monopoly refers to a situation in a particular field of economic activity. The term concentration of economic power is usually used in relation to the situation within the economic system as a whole." (Gadgil, 1972, p. 355.) The distinction is vital according to him in order to formulate proper policy. In the Indian context, it is the concentration of economic power that assumes much greater importance than the problem of monopoly, he contends. This is because he asserts that "the problems relating to monopolistic positions in India are not in fact related to the ordinary working of market forces in Indian economy or any distortion of the operations of these forces by monopolistic groups. The Indian economy, especially in the modern business sector, is full of monopolistic positions and these have been
created by decisions taken under the plan." (Ibid., pp. 356-57.) What is, therefore, important is that the "centre of attention has to be shifted from the emergence of monopoly in a particular activity and its effects on market operations to the formulation of State policy and its administrative interpretation. Where creation of monopolistic positions is related to administrative decisions, the operations of the decision-making system are endowed with much greater importance than the operations of market forces". (Ibid., p. 357.)

DRG thus makes an important point. If the monopolies are the result of the action under the plan, just normal anti-monopoly measures are not enough. He contends that the thinking of the government behind the appointment of the Monopolies Enquiry Commission and its terms of reference were based on wrong understanding of the situation and, therefore, was bound to lead to inappropriate and inadequate measures. The Government appeared to him to believe that the concentration is related to decline of competition and emergence of monopolistic positions and may, therefore, be suitably dealt with by normal anti-monopoly measures. Since the monopolies have been created by government action, DRG contends, it is necessary, in order to check the consequences, to widen carefully and consciously the scope of State action so as to make monopolies operate with a view to attaining the social and economic goals accepted explicitly by us. In the absence of such action, monopolies once allowed to come into existence, would take their own course
of development and would influence and shape government policy with a view to serving their own narrow economic interests. In other words, the government must take care to see that it does not become an instrument in the hands of monopolies created by herself. The government must retain her control, and direct the operation of monopolies effectively.

In order to understand this view it is essential to note summarily the theoretical background of the process of economic development and analyse the facts and policies of government in this regard.

Centralisation and concentration of economic power in the hands of a small number is supposed to be the natural result of a reliance on the operation of market forces. Students of economics are familiar with this phenomenon and large literature is available on this aspect of development process, particularly after the works of Karl Marx. There is therefore no need to elaborate the point. However, in order to bring out the contrast in the development of monopoly capital in Western countries from that in India, it may be worthwhile to state this process briefly.

Paul Sweezy states the process very tersely as follows:

The central dynamic force in the world capitalist system as a whole is the capital accumulation process in the developed countries. It began with what Marx called the primary accumulation of capital, a double process involving: (a) the creation
of wage-labour force, and (b) the amassing of liquid capital. The wage-labour force was created in the main through the expropriation of the peasantry, and a large part of the liquid capital was provided from the loot and profits extracted from the subjugated dependencies. After this stage came the 'normal' process of capital accumulation, i.e. the production of surplus value by wage labour, the appropriation of this surplus value by capitalists, and the conversion of a large part of the surplus value into additional capital. The process is by its very nature an expanding one, always requiring new fields for investment, more labour power and raw materials, and larger markets for finished products. Creating conditions favourable to the most rapid accumulation of capital and removing obstacles which impede the process are the central tasks of the capitalist State to which, in the final analysis, all its other functions are subordinated.

In the course of the accumulation process, capital undergoes technological and organisational transformations. The earliest form of capitalist production was what Marx called manufacture (many craftsmen working in a single enterprise with a more or less elaborate specialization and division of labour). Under the impact of the Industrial Revolution (roughly 1750 to 1850 in England), manufacture gave way to machine industry (in which the focus shifts from the worker to the machine and the former becomes increasingly a mere appendage of the latter). The development of machinery and of other advanced technologies
in the fields of industry, transportation, and communication made both possible and necessary a steady expansion in the size of the viable unit of capitalist production. The small capitalist proprietorship or partnership which characterised the early stages of development gave way to the corporation, an organised form which permits an unlimited concentration and centralisation of capital, and at the same time gives rise to and in turn is fostered by an increasingly elaborate financial superstructure of banks, securities markets, holding companies etc. ... With the growth of the giant corporation, capitalism left its competitive stage and entered its monopoly stage.¹

Industrial development in India did not take place in this sequence and pattern. Industrial development in India took place under the conditions characterised by foreign rule which did not favour spontaneous development of industries; the policy of the British was restrictive and also the competition coming from British industry was formidable. Therefore as Betleheim pointed out "Indian capital quickly reached high degree of concentration, because only those who possessed large financial resources at the start could exist when faced with competition from foreign capital and with the feudal or semi-feudal social and economic structure of rural India. Feudal relations reduced the internal market expansion of industrial products to a minimum, the market being in any case supplied by

¹ Paul M. Sweezy. Modern Capitalism and Other Essays, 1972, pp. 6-7.
imports from Britain. In the developed capitalist countries, the monopoly stage arrived, generally speaking, after capitalism had played its historically progressive role by freeing society in varying degrees from the shackles of feudalism and by developing the productive forces to an unprecedented level. Though capitalism in India has more than a century's history behind it, it has largely failed in both these respects. "Industrial capital developed in India when world capitalism was already at the 'monopolistic' stage. There was naturally a tendency for Indian industrial capital to take monopolistic forms. The Managing Agencies which British big capital used to exploit colonial India were also used by Indian big capital as a method of combating foreign capital... They could hardly avoid doing so, since for a long time an isolated Indian enterprise could not get banking support because the big banks were controlled by foreign capital, which wanted to discourage Indian capital formation, or by Indian big capital, which did not treat competitors kindly."

At the time when independence was achieved, the government faced a situation, the important characteristics of which were (a) general underdevelopment i.e. lack of infrastructure in the countryside without which industrial progress was not possible, (b) entrenched monopoly capital in certain fields, (c) lop-sided

3 Ibid., p. 46.
industrial development on the whole. The lop-sidedness was revealed by the basic weakness of Indian industry, especially in the metallurgical and engineering industries; as a result of this "any large industrial development in the India of 1948-49 required imported machinery since the national industry could not supply what was necessary".  

There was a need to develop all kinds of industries and as rapidly as possible. Particularly there was an urgent need to develop those industries the lack of which constituted a serious weakness in the industrial structure of India. The government, therefore, was keen on encouraging private industrialists in all fields. At the same time there was a need to economise the capital resources; therefore, there was a need to control and regulate the development process. This need inevitably led to the creation of sheltered markets, situations which are oligopolistic or quasi-monopolistic. DRG sees nothing wrong in this. In fact he approves it. This is because he believed in planning as an instrument to force the pace of development. To rely upon market forces means considerable delay and groping in the dark. Therefore a planned action is necessary to accelerate the industrial development, even if it leads to sheltered markets. "The relative backwardness of the modern business sector combined with the need to economise capital and exchange resources and to plan a strategy of invest-
ment must lead to the creation of sheltered, oligopolistic, quasi-monopolistic situations in a large number of strategic production activities." (Gadgil, 1972, p. 316.) Thus there was nothing wrong if new monopolistic positions were created. But what was objectionable was the lack of policy in order to regulate its consequences. "If both the economic and social objectives of planning are to succeed, the special protections or privileges given deliberately for a period to particular sets of traders and producers must not be abused." (Ibid., p. 316.)

Three aspects of DRG's view thus become obvious. First, he accepts the role of private capital in all modern and strategically important industrial sector; he approves the ideology of mixed economy. Second, he approves all steps to economize resources, which may lead to a creation of sheltered markets. Third, in order to check the growth and consequences of industrial concentration, he insists on elaborate and strict regulation and control. In brief what he objects to is not monopoly and concentration as such but their unchecked consequences. The terms monopoly and concentration are not anathema to him.

All that DRG insists upon is formulation and effective operation of the regulatory frame. The view of Prof. Gadgil that monopoly capital sector can be made to serve the national goals is based on his study of the similar phenomenon in other countries (Ibid., pp. 351-353). In countries like the U.S.A.,
U.K. and Japan he found that monopoly sector is made to follow the path laid down by the government for national development. In these and other advanced countries, the government laid down a basic framework within which monopoly worked; because of this framework, evil consequences of monopoly and concentration could be checked effectively. For example, after the Second World War the governments in these countries accepted maintenance of full employment and minimisation of inequalities as the basic tenets of their economic policies. The British White Paper on Employment Policy in 1944 and the Employment Act in U.S.A., passed in 1946 are the instances which show that in these countries the government intervention would no longer be confined to corrective measures in times of serious maladjustments but would aim at achieving important objectives like full employment, maximum rate of growth, establishing egalitarian order and ensuring minimum incomes to all.

With this change, the attitude towards monopoly and concentration also changed. "The emphasis shifted from ideology to operation" as DRG puts it. Monopoly or concentration was no longer a matter of concern but its impact on the economy was to be watched closely. The government was no longer interested in establishing the fact of monopoly but was interested in watching and preventing discriminating practices which monopolistic positions or oligopolistic collusion may make possible. "Thus concentration or monopoly per se is not to be prevented so long as no unfair advantage is taken of it and no unsocial practices indulged in." (Ibid., p. 352.)
In countries like Japan and Germany right from the beginning DRG found this positive attitude. That is because in both countries the governments had taken initiative in promoting industrialization. In Japan arrangements were rather informal. The government and the industrialists informally agreed upon a policy leading to higher rate of growth and employment and welfare of the people. There was therefore no anti-monopoly sentiment as such.

These developments seem to have influenced DRG. He is more concerned with the consequences which result in the absence of regulation rather than with the growth of monopoly and concentration. In fact, as stated above he regarded it as essential that favourable circumstances have to be created for certain industries in order to economize the use of resources. Thus he approves preferred allocation of capital resources in favour of particular concerns or activities; special quotas and licences for imports and special incentives for exports. All these lead to the rise of monopolistic positions. It is this special action under the plan that is, according to him, responsible for the rise of monopoly in India.

While making this comparative study and analysis, DRG draws attention to the crucial point viz. the policy frame within which monopoly and concentration is permitted to operate in advanced countries widely differs from the one in India; and it is here that DRG is very critical. There is total absence of policy frame and in particular regarding the consequences of
monopoly and concentration, the government according to him was dodging deliberately any responsibility. It is for this reason as he contends that we have "worst of both worlds"—socialist and capitalist; this is a major failure. Planning is practised in all capitalist countries. The objective of planning there is to control the overall situation in such a way that no special class gets undue advantage of the monopolistic situations.

The most important characteristic of this situation is that in relation to the overall broad operation of the economy, especially in relation to class distribution of incomes, it is socially determined national policy rather than forces of the market that define the main conditions and regulate the trends. (Ibid., p. 352.) It is this 'socially determined policy' which is crucial in making use of monopoly and concentration. The important features of such policy as listed by DNS are mainly three. In the first place agricultural prices are determined basically through arrangements which are akin to agreements between the farming community on the one hand and the national government representing consumers on the other. Because of this facility the farming community enjoys not only stable and secure prices but also favourable terms of trade. Along with this there is in operation for a long time an incomes policy which has resulted into making the society far more egalitarian. Absence of inequalities automatically controls trends towards distortion of investment allocation as stated earlier. Secondly, there is a comprehensive social security system. The weaker
section in the society is assured of minimum standard of living through this system. With the adoption of full employment as State responsibility along with this, the weaker section is sufficiently protected against the consequences of business fluctuations and of the operation of market forces. Finally, to this array of measures have to be added other measures also such as increasing opportunities for betterment, expansion of varied educational opportunities and deliberately planned regional development.

This framework is thus important. DRG is of the opinion that if this framework is maintained, the older approach to monopoly is not necessary. He emphasizes that operation of monopoly can be advantageous to a certain extent provided there is an overall direction to the economy.

While one can agree with DRG about the need to have a framework outlined above, one fails to find how DRG makes it related to monopoly control. These features, viz. stabilization of agricultural prices, incomes policy and policies for regional development, better educational facilities etc., are no doubt important. The relationship of these with control over monopoly, however, appears tenuous and remote. Much more direct control may be necessary to check the undesirable consequences of monopoly and concentration of economic power.

Coming to Indian situation DRG points out that there is not only a lack of this framework but there is a deliberate effort to bypass it. And for this reason, monopoly and con-
centration in India have become harmful to the economy and to the society. His objections are: (Ibid., pp. 353-354)

(1) As regards the prices of agricultural commodities there is a deliberate refusal to accept any programme of stabilization.

(2) Consciously or unconsciously the dominance of the moneylender-trader economy in the countryside is bolstered up by State policy.

(3) There is, for all practical purposes, an absence of social security measures in the sense of measures that can have any impact on the conditions of the really depressed and disadvantaged classes.

(4) The problem of unemployment is deliberately dodged as being too large to be tackled in the near future.

(5) The minimum wage prescriptions and collective bargaining, which played such a large part in giving a floor to labouring class incomes in Europe, do not affect the most disadvantaged in India. The relatively better organised and relatively better paid employees in modern industry get the benefit of those provisions. The casual labour in cities or the rural agricultural labour is entirely outside any of these protective devices.

(6) Land reform has powerfully influenced the market for land; and the ceiling legislation has, to a large extent, limited the possibilities of economic betterment of individual operators in agriculture.

(7) There is not much effort to plan deliberately develop-
ment of different regions. In fact as it appears today con-
centration of industries in certain metropolitan cities continues
at a higher and higher speed. The high rate of growth of
metropolitan areas, in turn, attracts or necessitates a high
rate of investment on socio-economic overheads, for these areas.
As rest of the country is starved of resources needed for its
development, a continuous increase in disparities is thereby
brought out.

(8) The savings and taxation policy further increases the
surplus retained by those in whose favour special allocations
of capital and other benefits have been made.

(9) The control of individual prices where it exists is
in no way related to either efficiency of operation or to
exploitation of monopoly advantage.

DRC thus comprehensively lays down what he would like to
include in the policy-frame. If all the above points are taken
into account, he believes, monopoly and concentration can be
made to yield good results. Here, again, one can appreciate
the mention of the details of the frame-work; however, one
expects analysis to show how each of these is relevant for
controlling the consequences of monopolies created by or result-
ing from government policy and action. Perhaps DRC might have
thought that a broad egalitarian order would go a long way to
check consequences of monopolies. For example, reduction in
income inequalities, would check demand for commodities which
are non-essential and luxurious. Employment orientation of the
plan, may give rise to demand for production of essential commodities and consequently the available resources would be better allocated. These measures though important, have limited use in checking monopolies. More direct measures are called for. These include, for example, investment for the development of infrastructure in the countryside, direct and firm control over location and expansion policies of monopoly houses, breaking up of monopolies and their dispersal if necessary and so on. Prof. Gadgil is not unaware of these and similar measures; he however does not give us a complete statement about this at one place while discussing the problem of monopolies. Most important is the political factor. The economic surplus appropriated in lavish amounts by monopolistic concern is not necessarily used for productive purposes or in a manner laid down in the plans. Firm government action is therefore essential. How far this is possible, depends upon the political system. We will deal with this aspect in the following chapter.

Public Sector and the Operation of Mixed Economy

D.R. Gadgil was an ardent advocate of the extension of public sector. To attain the goals of a socialistic society, a progressive widening of the public sector, both in absolute and relative terms, was regarded by him as an essential prerequisite. But in this regard too his approach is an approach of an economist rather than that of a doctrinaire dogmatist. He made two categories of private enterprises (Ibid., pp. 89-90).
The first, which he called "private enterprise" proper, consists of the vast majority of units in the private sector; all the units in village and small industry and retail trade in agriculture barring the plantations and most of the field of transport are included in this division. The second category is described by him as monopoly capital; this division is characterized by the limited number of units in each field of activity and the power of these units to control significantly the market for their product by acting together. Almost all modern machine-industry, modern banking and insurance, most of foreign trade and some part of internal wholesale trade are embraced within this. As explained above, the plan has further increased the importance and dominance of this sector.

DRG makes this distinction with a view to make a plea that it is this sector of monopoly capitalism that needs to be brought under public sector. According to him all those industries, which have been encouraged to come into existence, which have been given all kinds of facilities, for which deliberate sheltered markets were created, and in which large surpluses arise should be brought into the public sector.

Among the important reasons why monopoly capital sector should be brought under public sector, prominent is the need to utilize the surpluses properly. This sector is the sector which requires large capital resources for investment. This is also the sector where large surpluses are likely to occur. DRG feels, that these surpluses, if allowed to remain in the private
hands, may not become available for further investment accord-
ing to plan priorities. One way to take over these surpluses
is to take over through fiscal measures. But DRG feels that
if the government tries to take over these through fiscal
measures, these are likely to be evaporated through number of
leakages; such as commissions and all kinds of payments to
partners, relatives etc.; these payments mean swelling of
incomes of a small number of persons in the country and this
leads to rise in demand for commodities, the production of which
is not enjoying any priority in the Plan. The concentration
would therefore lead to pressures on government to bypass the
plan priorities. This has happened in the past. The emergence
of many industries, is an evidence of it; DRG cites the
example of rayon industry to support this argument.

If on the other hand, all these industries are in the
public sector, it would be easy to get hold over these sur-
pluses; the costs involved in fiscal measures is eliminated,
and the surplus thus available could be used according to plan
priorities. No question of distortion would arise.

This is the logic of extending the public sector.

It will be seen that this view is to a certain extent
not consistent with his views on monopoly and concentration,
discussed above. It may be recalled that while dealing with
monopoly capital and concentration, he was not found totally
against its being in the private sector. All the while he was
emphasizing only on having a regulatory frame. It implied that
such a regulatory frame was possible within which monopoly
capital in the private hands could be compelled to operate in
the interest of the entire economy.

This was however not his view in the beginning. It
appears that he modified his views in this regard. There are
three important stages in the development of his thought in
this respect.

In the first stage, i.e. around 1956, he appears to
favour extension of public sector in the area of monopoly
capital. Regulation did not appear enough. This was for him
an established fact and he refers to the developments in
preceding years. He therefore advocated taking over all those
industries which came in the category of monopoly capital. He
writes, "... even apart from any requirements of the progress
towards a socialistic society, an extension of the public sector
in that division of the private sector which is occupied today
by monopoly capitalists, it appears is urgently required; with
an avowed socialistic aim this becomes imperative. The only
real solution to the problem in the long run is that the whole
of the division at present occupied by monopoly capitalists
should be transferred to the public sector."6

This was his position around 1956. This position seems

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5 (a) Policy Decision in Plan Making, February 1955, (b)
Note placed before MDC, January 1956, and (c) Aid Memoire,
January 1956 in D.R. Gadgil. Planning and Economic Policy in

6 Note to MDC. Ibid., p. 29.
to have diluted to a certain extent around 1966, i.e. after the completion of the Third Plan period. The view around this time has been dealt with adequately above; briefly there was a shift from extending public sector to the entire division of monopoly capital to its effective regulation. A further dilution appeared around the time when he took over the Deputy Chairmanship of the Planning Commission in 1969 and actively applied himself to the great task of the formulation of the Fourth Plan.

This change is reflected in his Approach to the Fourth Five Year Plan. He comes to the conclusion in this note that no substantial success was achieved in the regulation of the private sector. The existing system of controlling investment, entry and allocation through licensing, capital issues control and quantitative import restrictions did not function as satisfactorily as DRG visualized. He wanted to have a more thorough and integrated regulatory system. But instead of advocating the same, he advocated a more competitive economy. A more strict and thorough regulatory system, he thought, was not likely to be 'acceptable or workable'. He does not explain why he felt so. But while realizing the limitations of instituting a more thorough regulatory system, he was not prepared to accept the other alternative viz., "that of allowing free entry and operation and aiming at increasing efficiency and cost-consciousness through increased competition".\footnote{A.R. Kamat (ed.). \textit{Selected Writings and Speeches of Professor D.R. Gadgil}, p. 88.} Instead he advocated a
compromise solution, i.e., selective process of de-licensing. Competitive economy was solution even to the problem of concentration of economic power and of the monopolistic position held by some units in the private sector. He writes "to the extent that entry is made free and competition increases, concentration and monopoly may decrease". The possibilities of merger and collusions, he thought, could be handled by appropriate legislation.

He seems to have two reasons to advocate a competitive economy. The first, as stated above, is that he thought that in the existing political situation a thorough and integrated regulatory system was not likely to be acceptable and even if accepted verbally, not likely to be implemented. The second was unsatisfactory performance of the public sector.

As regards the first, the situation was clear. As we will see in Chapter IX the influence of large capitalists, the nature of the ruling political party, inherent weaknesses of the democratic set-up, administrative deficiency etc., made working of mixed economy difficult according to the pattern visualised by planners. Any insistence on more vigorous regulation or on revolutionary methods would have brought about unexpected consequences; for example, the result could have been a rightist regime. DRG might have apprehended such a

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8 Ibid., p. 88.
9 Ibid., pp. 88-90.
consequence. He might have, therefore, thought better to move towards a competitive economy instead of taking risk of this kind. It is, however, necessary to note that he was not advocating a complete laissez faire. All that he was advocating was a resort to relatively more competition in fields where monopoly capital has become strong and where regulatory framework has failed to bring them to book.

As regards the second, the performance of the public sector in general was disappointing to him. If public undertakings are not working up to the expectations, what is the point in advocating further extension of the same, he must have thought. He writes, "... in a number of directions the performance of the public sector has not been very satisfactory. This affects extension of coverage in two ways. Low return of investment in the public sector reduces resources that are expected to be available from such investment. Persistent low returns also raise doubts as to the wisdom of further extending the coverage of the public sector". 10

The public sector has come under heavy criticism since the early times. However, D R G does not specifically mention wherein lay his dissatisfaction. Nowhere in his writings he deals with this aspect. In the absence of this, one does not find it possible to fully agree with him. There is no doubt that there were low returns on investment in the public sector.

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10 Ibid., p. 33.
and that there was considerable inefficiency in management. However, the difficulties and problems faced by the public sector undertakings were also enormous. This is not a place to undertake a detailed survey of these problems; however, a brief statement may be in order. In the first place, the objectives of public sector undertakings are not just commercial. The objectives may be providing cheap services to the public and provide inputs to other industries. Even if the objective to some extent is commercial it is subjected to constraints of Government policy-frame and, therefore, full commercial benefits are not always available to these units.

Among other reasons accounting for low returns may be included over-capitalization, which pays only in the long-run.

All these reasons were present in India. In addition there were special difficulties. In the first place, in many fields there was no previous experience, e.g., in fields relating to chemical fertilizers, heavy chemicals, machine tools, heavy engineering, heavy electricals, etc. Secondly, even where some experience was there, the scale of operation after independence was much larger economically and technically; the experience available so far was, therefore, not of much use. Thirdly, in the planned era the tempo required was also very high. Finally, there were some unanticipated problems, two of which were (a) longer time and (b) higher capital costs.

There may be many other reasons besides the above ones.
The administrative and human failings added to the above problems. Political and administrative influences in the day-to-day working, failure of top managers to evolve proper relationship between workers and themselves, controls by non-experts in decision-making process, lack of adequate attempts to change the executives' attitude and methods of operation through appropriate training and reorientation programmes; little professionalism in civil service, and the lack of action-mindedness among the administrators in general, these and others have their share in the poor performance of public sector undertakings.

DRG might have taken into account all these factors. He, however, does not seem to apply his mind to find out the remedies to remove these reasons. At least a majority of the deficiencies have remedies. DRG, however, preferred to infer that there is no point in further extending the scope of public sector.
CHAPTER IX

POLICY FRAME AND THE POLITICAL PROCESS

DRG's insistence on the establishment of cooperative commonwealth, on rural industrialization and on regulation of private sector, particularly the monopoly capital and on the extension of public sector, - all this raise a basic question: How is this to be brought about? In other words what is the political process visualized in order to achieve these goals?

It appears that he placed faith in two things. In the first place he believed that voluntary efforts to build up cooperatives—in agriculture and in industry—and similar organizations from below would create pressure and force which will compel the government to formulate and implement a suitable policy so as to achieve the goals stated above. In the second place, he had faith in the leadership which successfully led the struggle of political independence of India. He writes "For at least a century before the coming of independence, leaders of our society were deeply concerned with the low state to which we had fallen and the paths of prospects of our regeneration. It was agreed that a number of features of the internal structure of our society together with the conditions created by foreign rule were responsible for our depressed state and that strenuous efforts were necessary in all spheres, social and educational, political and economic, to achieve
progress. ... Courage, integrity and above all, a disregard of immediate self-interest were, in the circumstances, essential and were continuously exhibited. ... Even businessmen incurred some risks when they pressed for the acceptance by government of economic policy in national interest." (Jadgil, 1972, pp. 301-302.)

As a result of pressure from below and high moral values and perspective of social transformation of the leaders at the top, DRG believed that a new social, economic and political order would ensue. He did not think that there was any need of revolution as it occurred in Russia or later in China. He believed that India would exhibit a model of peaceful revolution.

He was, however, disillusioned as early as 1962.

The leaders who led the freedom struggle and became rulers as well as the captains of the administrative structure (the superior classes as DRG described it) forgot the past ideals. There was no change "in the external arrangements connected with the manifestations of political authority" (Ibid., p. 302). The display of pomp and the security measures which marked the British rule, continued and with this continued the distance between the ruler and the ruled. The Civil Service continued to wield power and other services and experts were placed in an inferior position and deliberately excluded from the highest executive positions and from policy-making. The reason for this state of affairs was, as DRG puts it, the dominance of large capitalists, which increased after independence.
He contends in unequivocal terms that the economic strength and the political influence of Indian businessmen increased enormously since independence and the adoption of planned economy. "The dominance of this resurgent group of large capitalists is the most important and significant change in India since independence." (Ibid., p. 306.)

The bureaucrats came under the influence of industrial magnets mainly because of the latter's tremendously increased power to employ. Since there was no regulation of salaries in the private sector, the bureaucrats started looking for lucrative jobs in industry. "Their goal is no longer to get into the highest official ranks but into the highest ranks of managers and technicians employed by large Indian and foreign business in India. ... We have thus arrived at the curious position that most officials who exercise large discretionary powers in relation to regulation of business might yet look on businessmen as potential employers or patrons of their sons and relatives and even of themselves." (Ibid., p. 307.)

A similar relationship developed between businessmen and the politicians. The politicians came under the influence of businessmen for the latter's ability to offer lucrative positions to politicians out of office or to their relatives. The political party on the other hand came to depend upon the businessmen for increasing funds which were necessary. "The recent concentration of surpluses in the hands of capitalists and in the corporations they command, gives them an overwhelming
dominance as potential source of political funds. In such a situation the refusal of the ruling party to pass what might have amounted to a self-denying ordinance, has certainly worsened the situation politically and ethically." (Ibid., p. 308.)

As a consequence of the situation described above, all the original objectives were set aside: the production programme was warped; dispersed and decentralised growth was lost sight of; rural industrialisation was not attended to. Concentration grew and with it grew inequalities; cooperative commonwealth remained only a dream.

In a sense this state of affairs was not unexpected. History provides evidence that the State and the capitalist class mutually support each other. On the one hand as DRG recognises, there is a need to promote economic development. The state adopts all necessary measures for this purpose. "...the government policy is directed towards eliminating risks from the appropriate fields and towards enabling private capitalists to procure the needed resources, material and financial." (Ibid., p. 304.) Thus the capitalist class grew with the assistance of the State. The State (i.e. the party in political authority) in turn takes assistance of the capitalist class for political funds. This mutual interdependence is bound to lead to relaxing of the restrictions on the growth of the capitalist class. The failure to adopt policy-frame, was largely due to the pressure of this class of industrialists whose interests ran counter to the objectives set in the plan.
Therefore, what was promised was ignored in practice.

That this will not occur was assumed by DRG on the basis of the experience of the freedom struggle, in which the Indian industrialists supported even by running risk to a certain extent of incurring the displeasure of the British rulers. But he forgot that Indian industrialists supported the freedom struggle also with the hope that in free India they would get wide scope for expansion and for earning profits. Their support for freedom struggle was not necessarily a support for all that Congress stood for. Particularly in regard to the economic policy—which was influenced by Gandhians on the one hand and Russian experience on the other—was not endorsed by the industrialists.

It was, therefore, logical that after independence the capitalist class greatly influenced the actual policy-making of the government.

The real fault lies with the nature of the political system that was adopted. DRG was not unaware of this. He hints at the dependence of the ruling party on political funds which were to come from the capitalist class. He, however, does not go into the details as to what should be done to alter the system. He continued to hope that an appeal of moral values would be enough to induce the politicians to follow the path accepted at the beginning. "What is fundamental is to recapture the sense of struggle, to realise the magnitude of the task ahead and of the need for discipline and great self-
restraint on the part of everybody. ..." (Ibid., p. 311.)

But he does not suggest anything more. As a firm believer in democracy, he rejects the revolutionary path. He states "If I were convinced that under the existing set-up there was no alternative to the perpetuation of conditions thus described, I would have no hesitation in advocating its destruction by all means. I do not, however, believe in the invariable association of given attitudes, structures and operations. For example, among the special features noted about Communist China by most observers are the plain living of her leaders, the absence of wasteful consumption, the focus of administrative arrangements on helping the poor and the backward, and the emphasis on utilizing idle manpower and on the dispersal of industry. ... but I do not believe that they can be achieved only in a communist regime or only by the communist way." (Ibid., p. 311.)

That dependence on capitalists for political funds led to distortion in planning, can hardly be disputed. There has been a wide acknowledgement of this fact. It is, however, not enough just to state this. What is expected from social scientist of the stature of DRG is the clear identification of the political and socio-cultural conditions for effective implementation of the economic plan. It will be seen that the key concept of the strategy of economic planning accepted right at the beginning was the concept of a mixed economy. The planners and the ruling party led by Pandit Nehru accepted the
concept of mixed economy, consciously, as the most desirable transitional form of India's socialist transformation. The concept implied first, a regulated private sector and a fast expanding State sector in basic and strategic industries, in power, transport etc. and second, a cooperative sector in agriculture and allied industries in the countryside with the overall direction and control of the State. This strategy was thought as the best one because it was supposed to take into account the imperatives of economic development towards the socialist order. The entrepreneurial talent, organisational skills and resources of the private sector were to be harnessed in this strategy, to the task of social and economic transformation. This form was regarded as the best, further for the reason that it avoided the deficiencies and pitfalls of the communist way. BRG clearly indicated his support to this strategy.

Since the time of adoption of this concept, it has come under heavy fire from both extremes. On the one hand, the private sector has criticised the overall control and direction of the State and has pleaded more or less for complete freedom to develop, of course, with necessary protection from outside competition and positive assistance and incentives from the government. The leftists on the other criticised the concept as a camouflage for the development of the private sector; the Big Houses in particular were alleged to have taken undue advantage and through corruption distorted the original development plan. The leftists, therefore, too wanted to abandon the
concept and adopt a full-fledged controlled and centralised planning.

DRG, while accepting the elements of truth contained in the argument of the leftists, did not seem to favour the abandonment of the concept and acceptance of a totally controlled economy. He was an ardent advocate of the concept of mixed economy till the end; however he wanted more effective and firm control and direction by the Government. While he was unequivocally against the free market economy, he was equally aware of the shortcomings of the totally controlled economy. In a free market economy, all the national priorities such as regional development, dispersal and decentralisation, indigenous growth of technology using local resources and manpower etc., have no chance of being respected. On the other hand, in a totally controlled economy too he saw important deficiencies. He wanted the government to give direction to the development and at the same time release the entrepreneurial talents, energies and resources of the nation. Therefore, the choice according to him was not between free market economy or controlled economy; according to him the choice was between judicious strategic and effective regulation and ineffective and injudicious one.

According to DRG, the government failed to firmly regulate the private sector in the national interest. As it actually happened, the private sector through the political finance subverted the national priorities. This could have been avoided according to DRG. What was necessary was the strong political
regime committed to national economic independence and to mass interests. This expectation of DRG was rather unrealistic. As revealed by later developments the main weakness of the mixed economy in India was the absence of such a strong government and its failure to serve as an effective means of surplus mobilisation and capital accumulation and failure in instilling discipline in either the entrepreneurial class or the working classes.

V.K.R.V. Rao rightly points out the deficiencies of the working of the mixed economy in India. He makes distinction between two patterns of mixed economy. In the first pattern, the State provides external economies to the fast growing private sector or to private concentrators of economic power. The basic decisions of production, distribution, saving and investment in this case are taken either by the private sector directly or in response to the pressure of this sector by the State agencies.

In the second pattern, the State has the control of strategic points of the economy, which are used as commanding heights, for determining the main direction of development of the economy. The private sector in this pattern is subordinated to the overall demands of national development on socialist lines. The State converts in this way the commanding heights

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also into lucrative heights, ensuring thereby the acceleration of the tempo of capital formation and resource mobilization.

This distinction is vital in order to understand the nature of the mixed economy as it operated in India. By and large, it is the first pattern to which the Indian mixed economy conformed. But the mixed economy originally conceived and planned was not of this type. The planners and DRG had the second pattern of mixed economy in their minds.

To understand why this happened one has to switch over from the plane of economics to the plane of political economy. As Rao points out it there was not much wrong in formulating an appropriate economic strategy; the failure lay in clearly identifying the political and socio-cultural conditions for effective implementation of the economic strategy. "... the fault lay in the failure to formulate the political strategy and to consolidate the social and ethical forces for socialist transformation. The missing element in the Indian strategy, therefore, has been political, social and cultural mobilisation for socialist transformation."  

Rao analyses further the political patterns. He mentions two political patterns or power structures associated with a mixed economy within a parliamentary democratic framework. In the first there is a political alliance of the intermediate class with the upper classes verbally accepting socialist ideology only to win mass support but using all levers of power

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2 Ibid., p. 499.
to facilitate a type of capitalist development in the interest of a narrow section of Indian society. The second pattern is based on the political alliance of the have-nots and the intermediate classes using socialist ideology to release mass energy and initiative on a vast scale and using the levers of powers to promote the process of socialist transformation of the economy in the interest of the widest section of the society especially of those at the bottom.

In India the first pattern prevailed and therefore mixed economy in practice operated in favour of the big business. The main reasons were alliance between the administrators and the politicians, between big business on the one hand and politicians and administrators on the other, ignorance of the masses and the failure of political workers to mobilize the poor masses.

Prof. Gadgil also comes to the same conclusion. However he does not take his analysis beyond mentioning the fact about this alliance. He was obviously hoping that the organisations of the weaker sections in the society (such as those of small farmers etc.) would release the political forces and the second pattern of mixed economy referred to above would come into existence. This did not happen. He however continued to hope and all that he thought worthwhile doing is to make appeal to those holding power to adopt a policy-frame suitable to the attainment of objectives accepted in the plans.

In a sense there is no remedy within the democratic framework other than political mobilization of the masses.
All other remedies fall far short of the requirements and are dependent ultimately on the politicisation of the masses. Take, for example, the views expressed by V.M. Dandekar, another eminent economist, in this connection. Dandekar, like DRG and Rao, comes to the same diagnosis of the situation. He, too, came to the conclusion that the factors responsible for this distortion are the political finances derived from the Big Businesses. "... the main roadblock on the socialist path is the democratic power structure as it has emerged during the past twenty-five years and which now stands squarely across the road. For further progress towards socialism, this power structure must be attacked at its source, demolished and removed out of the way."3

The measures suggested by him are two. First to keep open the wealth and incomes of all politicians from top to bottom to public gaze and scrutiny and, second, disqualifying persons having wealth and income above a certain prescribed limit for standing for any election and holding any political office.

With these two measures, he hopes holding political office would not be found attractive and therefore industrial magnets would not be able to corrupt decision-makers to flout the national priorities in planning.

Though the measures are useful up to a point, the serious limitations are equally obvious. In the first place, wealth and incomes earned through illegal ways can be concealed in a variety of ways. Further, by keeping the formal income within the prescribed level, it is possible to enjoy the privileges of power in a number of ways. What is of more importance, however, is that prescribing limits to acquisition of wealth and disqualifying rich men from holding political office (which, it may be presumed, includes administrative positions, too) is not going to correct the distortions in planning. Persons holding decision-making power may be tempted to allow their decisions to be influenced by considerations of acquiring wealth till they reach the limit which would disqualify them from holding power position. Every newcomer in that position will continue the same influences till his own limits are reached. It is also necessary to remember that holding power position is important and continues to be attractive, even though it ceases to fetch wealth and income; it is important in itself as it fulfills personal ambitions. Even if it does not bring in money it may fetch all those things which even money cannot fetch. It is, therefore, wrong to presume that once political office ceases to be an instrument of acquiring wealth beyond a certain limit, nobody would be interested in it. In order to cling to power positions, one would continue to ensure the support from wherever it is necessary and if, for this purpose, it is necessary to appease the Big Business, the politicians would not hesitate to do so. Only when he finds
that it is no longer useful and further that it is necessary to bypass them in order to win the support of poor masses, he may stop looking up to the big industrialists for support and favour. But there is little likelihood that such a time would occur.

Amassing wealth for personal purpose is only one aspect; accepting funds for the party is another. Dandekar does not seem to pay attention to the latter. If the donations are taken for the party instead of for personal gratification, the situation will be different but it does not necessarily mean that it will be completely free from corrupting influence.

It will thus be seen that it is not an easy task to control the ways and means through which the business world can influence decision-makers and sabotage the strategy of economic development. Perhaps the only way within the democratic framework is to mobilise the masses particularly in the lower strata. It is, however, a huge and time-consuming task. The masses have to be enlightened as to what strategy is in their interest; how rural industrialisation is essential and how in order to attain it, it is necessary to check the modern sector. It leads us to work out a detailed action programme in the same manner as is done to attain political freedom. Till the masses are educated and politicized, there is perhaps no alternative other than making an appeal as DRG does to those who hold power.

While DRG rightly pointed out the influence of capitalists
on decision-making process, he was not equally aware of other kinds of difficulties. These may be described as political and administrative. Economic development ultimately is not just a matter of formulating a plan; such a plan is not difficult to formulate. The real question is the mechanism—political and administrative—through which the plan is to be actually implemented. It is, therefore, necessary to consider what kinds of deficiencies and problems India has been facing in relation to these two important aspects. The failure in planning cannot be entirely explained by "the influence of large capitalists". Had there been no such corrupting influence still failures would not have been avoided totally. The way rural industrialisation plan was implemented shows this adequately (Chapter V).

India attained freedom after a long peaceful struggle. The Congress Party which led the struggle, was not a party consisting of like-minded persons in all matters. The only aim which kept members together under the banner of the party was attainment of political freedom. Industrialists, large and small; peasants and zamindars, labourers and government servants etc., all alike shared this aspiration and therefore joined the struggle. As regards the management of the economy, views differed sharply among different groups.

With the attainment of independence, these differences started coming to the surface. Still, the charismatic leadership could successfully keep these differences at bay and
prevented the breaking up of the party. While, therefore, the party accepted in broad terms the socialist path towards development, there was no sincere commitment to it. The differences affected formulation of concrete programmes and policy-frame essential for attaining the socialist goals. And whatever decisions were taken were set aside when the time came to implement them.

Two illustrations can be stated to establish this.

At the Centre, the Cabinet represented a very wide spectrum of opinions and ideas. To maintain unity among all these different elements, compromises had to be made and these many times were of a verbal characters which represented no clear understanding about concrete policies and programmes. Food policy is an illustration of this. The First Five Year Plan clearly laid down an outline of the food policy relevant for the Indian situation. In spite of the fact that the controlled food policy, as laid down, was accepted by the government, a policy of decontrol was resorted to in 1952 and even though the policy decision was to maintain the organisation for control intact, in actual practice most States went ahead with full scale decontrol and dismantled the organisation. Since then the history of food policy is the history of indecision and vassilation between controlled and decontrolled policy. This has been due partly to differences within the Cabinet at the Central level and partly to the reluctance at the State level to carry out the decisions taken at the top
level. At the State level, there was either a fear of political difficulties or there was the lack of conviction regarding the policy even though for convenience, lip sympathy was paid to it. The same factor explains also the poor performance of land reforms in many States. The Centre, which itself was perhaps divided on many issues, could not exercise direct and rigorous control over the State governments. This failure was partly due to political problems and partly due to lack of clarity and administrative ability.

The same can be said about the controls in general to a considerable extent. In a planned economy, controls and regulations are inevitable. There can be no two opinions about it. However, exercising controls effectively and judiciously, depends on political integrity, clarity about the objectives and nature of controls and administrative ability to operate them. There is no doubt that there was some abuse of power in India as mentioned by BHG. But there was also the lack of clarity which was responsible for their being misused. To make controls effective there is a need to constantly review their nature, area over which they are exercised and the necessity of continuing or modifying them in the context of changing situation. This takes time and in the meanwhile inefficiency and abuse result. It was realized, for example, by the Committee in its report that the most important problem that industry faces in this country was, to describe in one phrase, "controls in detail". Many of the controls in the opinion of the Committee might have served useful purpose in
the past but now had become too cumbersome and detailed for a developing industrial society. The tendency thereafter was (1) to state clearly the guidelines of policy so as to reduce the area of pure discretion and (2) to reduce the area of control as far as possible and rely more and more upon the price-mechanism and less and less on physical allocation.

There were administrative problems too. The entire administrative machinery developed during the British regime had to be geared to a huge task of development within a very short time. The failures in planning are partly due to failures in this regard. As Tarlok Singh puts it, the administration in its structure, methods of functioning and capacity to meet the requirements of rapid development, has not been able to catch up and the distance may be increasing rather than diminishing.

Each of the two aspects, viz., political and administrative problems in implementing the plans, call forth a much more detailed analysis and discussion. This does not appear to be necessary for the purpose in hand. We, therefore, need not go into it. The purpose in referring to these aspects is only to highlight the fact that the failure is not entirely explained by the influence of large capitalists; there were other factors.


too accounting for the failure. Prof. Gadgil forcefully brings out the former; he is fully justified in doing so. However, it appears, that he ignores the other factors.
Section III: Cooperative Commonwealth

Only when one reads D.R.G.'s writings on cooperation, one gets an idea about the ultimate economic and social order, he would have liked established in India. According to him, the economy of a backward nation should essentially be a cooperative economy. "I have my faith in the concept of a cooperative society, that functions essentially in a cooperative economy. Cooperative behaviour I suppose to be the only way in which a backward economy has the possibility of peacefully forging ahead."¹ He makes it explicit that it is neither capitalism nor socialism that suits India and perhaps all backward economies; only the cooperative way - by which he means briefly "the way in which the competitive spirit and competitive practices are given necessarily an inferior place" - is desirable if social, economic transformation is to be attained.

Competitive economy is harmful according to him in the context of situation, important features of which are gross inequalities, dualism in economic fields, acute poverty, unemployment and predominance of moneylender-cum-trader system. Socialism is also not the way out. D.R.G does not elaborate what he understands by socialism; he merely mentions that socialism

¹ Writings and Speeches of Professor D.R. Gadgil on Cooperation, Poona: Gokhale Institute of Politics and Economics, 1975, p. 128.
is concerned with the problem of ownership of the means of production and of the distribution of income. He contends that in regard to both these matters, cooperative order is more effective than the socialistic measure. In regard to the first concentration is a big problem; this can be better handled by general regulation of the economy and if this is supplemented by cooperativization in a suitable manner of small and dispersed production units, economic development can be accelerated in the best possible manner. As regards the social security measures, which primarily aim at redistribution of income and offering minimum standard of living to all, DRG contends that in a very poor country, government is not capable of adopting these measures at least in the initial stages. But here too cooperatives of weaker units would go a long way in attaining the same objectives; they can protect the interests of the weak, strengthen their production base and enable them to forge ahead. Even for establishing democratic values, cooperative system is desirable. "The usual contents of a socialistic programme may thus have not much relevance for us in the immediate future," he concludes. We will study his thoughts on cooperation in the following chapters. For the sake of convenience, the study is divided in the following three chapters:

1. Concept of a cooperative organisation
2. Cooperative Commonwealth
3. State and cooperation.
CHAPTER X

CONCEPT OF A COOPERATIVE ORGANIZATION

1. Definition

DRC considered cooperative organisations essentially as mutualities formed by independent units of economic activity, to undertake in common, certain activities related to their functioning as economic units. What he means by mutualities is not made clear but it seems to imply an activity shared or held in common by participant units; it implies coming together of individual economic units, which continue to pursue their economic activity independently, modifying only to the extent of enjoying certain common facilities, provided by the joint organisation established by them. If there is no element of mutuality, there is no cooperative organisation according to Prof. Gadgil. He makes the point clear by referring to the organisations, owned and operated by cooperatives, established with a view to extend the scope and efficiency of their original operations. An organisation established by cooperatives in this manner is not necessarily a cooperative organisation; it may be an ordinary business organisation. The mere fact that it is owned and operated by cooperatives, which are themselves formed on the basis of

1 Writings and Speeches of Professor D.R. Gadgil on Co-operation. Poona: Gokhale Institute of Politics and Economics, 1975, p. 49.
mutuality, does not make the organization, jointly established by them, a cooperative organization automatically. Apart from this distinction, DRG also makes a distinction between cooperation among the weak and cooperation among strong participants. The term cooperative organization is essentially reserved by him for economically weak. "It is when the relatively weak come together for a given enterprise that their action is called joining together in cooperation. When the same or similar action is taken by the relatively strong it would be ordinarily called combination."2

Thus DRG regards two conditions essential to categorize any organization as a cooperative. In the first place, a cooperative organization must be based on the principle of mutuality and secondly it must be an organization of weaker members of the society.

One can understand the concept stated as above only in the historical context. It is well known that the cooperative movement was born in an attempt to counter the consequences of unbridled competition in the wake of industrial revolution. The Rochdale Equitable Pioneers' Society came into being in 1844 in order to protect the economic interests of workers against the early abuses or at least the rigours of the capitalistic industrial system. The immediate objectives were to emphasize and educate workers in mutual help and self-help, eliminate the exploiters and attain economies of scale by

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2 Ibid., p. 55.
pooling together the small production and consumption units. The attempts proved that the weaker individual units, who could not cope up in the competition, could not only survive but make progress by cooperatively working together. This experiment made it clear that direct interest and participation by all members in the economic activity jointly undertaken is an essential condition whether the participating members are producers, consumers or workers; the condition of mutuality is thus of fundamental importance. If it is a production activity, small units come together either to undertake the entire activity jointly or for a limited purpose such as marketing, harvesting, processing etc., i.e. by coming together they start a joint activity through which they improve efficiency of their individual activity. It is from this point of view that DRC emphasises that "a cooperative is a non-independent economic activity and strictly speaking the individual cooperative is not even a separate firm." 3

We can defer for the time being the question whether a cooperative is a firm or not and concentrate presently on the definition of a cooperative.

There are many definitions of a cooperative organisation practically all of which emphasize voluntary character, mutuality, democratic control and protection of interests of members who are usually weak taken individually. Dr. Fay,

3 Ibid., p. 49.
for example, defines cooperative organisation as "an association for the purpose of joint trading, originating among the weak and conducted always in an unselfish spirit on such terms that all who are prepared to assume the duties of membership share in its rewards in proportion to the degree in which they make use of this association." As pointed out by Margaret Digby this definition, though broadly acceptable, is limited in scope as it refers to only trading, which is too narrow a term to cover all the multifarious activities which can be carried out by a cooperative organisation. So also the 'weak' is to be accepted only in a relative sense. Digby quotes Dr. G. Mladenats who defines cooperative organisation as "associations of persons, small producers or consumers, who have come together voluntarily to achieve some common purpose by a reciprocal exchange of services through a collective economic enterprise at their common risk and with resources to which all contribute". This is a comprehensive definition, covering all kinds of cooperatives in different economic fields, and emphasizing the ideas of freedom, democracy and mutual responsibility. Most of other definitions are more or less on the same lines. We can note one more definition, given in one of the reports of ILO. "A cooperative is an association of persons, usually of limited means, who have voluntarily joined

together to achieve a common economic end through the formation of a democratically controlled business organisation, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking.\textsuperscript{6}

It is thus clear that while DRG does not either accept or quote approvingly any one of these definitions or gives his own complete definition, he accepts certain important characteristics implicit in all definitions. The most important are mutuality and economic weakness of members, and democratic method of running the organisation. Voluntariness is presumed; but as we will see later DRG advocates compulsory measures with a view to establish cooperatives in certain fields, under certain circumstances.

2. \textbf{Mutuality}

Mutuality, in the sense of direct participation in the joint activity is the basic test according to DRG. If we insist on mutuality, the scope for forming cooperative organisations becomes limited in the industrial sector. In agriculture as well as in the field of consumption, the scope is quite large. In agriculture, all field operations from ploughing to harvesting and marketing, offer ample scope for cooperative action. Farmers can either pool their land resources and establish cooperative activity to take care of only certain aspects of their business like marketing, for example.

Outside agriculture proper, cooperatives can be established either by producers or workers. Cooperative workshop established by skilled workers in a particular activity is one of the primary types of cooperative industrial establishment. The objective here is to come together to establish a service centre, operating at cost for the mutual benefit of participants. The scope for such cooperatives is confined only to those fields in which traditionally acquired skill is dominant and the mechanical or other equipment is essentially an adjunct to the skilled worker and there is no complex division of labour.

Next to it is the field of agricultural processing of all kinds. Cooperative organization is possible if producers or consumers of raw material come together. Producers of industrial raw material like sugarcane, cotton, oilseeds etc. can jointly establish an industrial plant. The primary objective of a processing and marketing society is to render mutual processing service and to obtain for the grower the profit margin that would accrue from selling the processed goods. The margin may be small or big, depending upon the nature of the crop and the general economic environment. When the processing is more akin to manufacturing a product, margin is likely to be large. For example, as DRC himself points out, the margin in sugar industry is larger and therefore the cooperative form is more beneficial to sugarcane growers.

Cooperatives can be established from the other end also
viz. by the small units consuming raw materials, which have been already in existence. For example, handloom weavers can come together and establish a spinning mill on a cooperative basis so that they obtain by cooperative effort, a continuous supply of the basic raw material required by them.

In all these cases the condition of mutuality is satisfied.

When this condition is not satisfied, the form of organization is not a cooperative form. This has been stated above. Prof. Gadgil states, for example, that an industry established by a cooperative itself for carrying out some of its own operations is not necessarily a cooperative organisation. He provides an illustration. The consumer cooperatives conduct trading activity jointly required by householders who are anxious to satisfy their own domestic need. This meets the condition of mutuality and can, therefore, be called a cooperative. As a next step the cooperative consumers’ stores may come together and form a cooperative wholesale organisation so as to conduct their purchasing operations more efficiently. Such a wholesale organisation establishes, let us say, a cheese manufacturing factory, to supply in part the ultimate needs of their clientele; can it be called a cooperative enterprise? Similarly a cooperative bank or a cooperative marketing organisation may establish a number of industrial production units; can these be classified as cooperative enterprises? According to DRC the answer is categorically in the negative. For him it is absolutely necessary to base the organisation of
industrial activity, if it is to be called a cooperative organisation, directly on the consumers, producers or labourers who are directly interested in the industry. 7

DRG recognises that the scope for extending cooperative form to the entire industrial field is limited severely. As will be discussed later, in the modern industrial field, the form has to change. Cooperative form gives place to corporate form. Corporate form is distinct from the cooperative form in that the shareholders do not directly participate in the business activity. Their participation is confined to the contributions of capital only. They are concerned with profits and dividends and not with the nature of the product or the day-to-day operations of plant; nor are they capable of exerting any influence on the policy or control over the management of the plant. To be precise corporation is a union of capitals while cooperative organisation is a union of persons. A cooperative brings together a group of persons, who, having a common need, set up a mutual service agency to operate at cost under personal control of such persons, who themselves contribute the patronage upon which it depends.

3. **An Organization of Weaker Members Only?**

Apart from mutuality, DRG insists that a cooperative organization is necessarily an organization of weaker members of the society. An organization based on the principle of

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mutuality, but established by stronger units is a 'combination' and not a cooperative and, therefore, undesirable i.e. it must be prevented and the government must have an anti-combination policy for this purpose. It is to be prevented because it tends to create monopolies and monopolies created by joint action of independent units have to be controlled in the interest of the society. BRG does not visualize any possibility of weaker units creating monopolies through a cooperative action. Thus while joint activity of weak units is to be encouraged, joint action of strong units is to be prevented. The former is supposed to prevent weak units being washed out in the competition; the latter is supposed to obstruct competition. By preventing combinations, the State forces units to compete; by encouraging cooperativisation of weak units, they are strengthened to withstand competition. The objective of both policies is thus one and the same, viz. to retain advantages of competition and to prevent its undesirable consequences.

From an economic point of view a cooperative organization represents an attempt to secure benefits of large scale operations. It can be seen that a benefit from a large scale operation may be of two types: (a) that resulting from a favourable change in the technical coefficient of production and (b) that resulting from the monopoly power which the organization may obtain and may use to the detriment of those who have transactions with the organization (such as workers,
consumers etc.). It will be seen that economy of the first type accrues both to the organisation and to the society. On the other hand economy of the second type accrues only to the organisation and not to the society. Given the spirit of cooperation, a cooperative organisation should represent an attempt to obtain economies of large scale operations of the first type. In the case of combination, however, there is no compunction in trying to obtain the economies of the second type.

Who are weak? That is not defined, explained or specified. DRG presumes that weak are easily identifiable. It is obvious that it is only a relative concept. There are complications, however. Take, for example, the cultivators' class. This is a very large class consisting of all kinds of farmers. There are farmers with small and big land holdings; farmers with or without irrigation facilities or assured water supply; farmers growing crops for market or for their own subsistence; and so on. Any one class can be weak in regard to a specific aspect and strong or not so weak in regard to another. Within each class there can be weak or strong members. In regard to certain aspects, all cultivators can be classified as weak. For example, as regards marketing, if all are exploited by the middlemen, all can be classified as weak and a marketing society covering all farmers would be justified. If larger farmers come together for enjoying irrigation facilities, or for the purpose of marketing their produce or for buying
inputs, there is no reason why it should not be called a cooperative. Again in many societies both strong and weak may come together for a common purpose.

In consumers' cooperatives also, all members of the society, rich and poor, can come together. Because the purpose is to buy commodities cheaply, eliminate the margin enjoyed by trader, compel the producers to improve production efficiency etc.

In the production field outside agriculture, the situation is somewhat different. Cooperatives may be established by weaker units of production to withstand competition from modern large scale plants. The case of rural industries like oil crushing, handloom weaving etc. is illustrative of this. But this is not always the case. Even if there is no danger from modern large scale plants, individual small units may come together to obtain economies of scale in certain matters such as buying inputs, marketing their produce, conducting research etc. The objective here is reciprocal benefit by obtaining economies of scale.

It will thus be seen that if we insist that cooperatives are essentially of weak units, it is a narrow view. The purpose is important. Coming together to obtain economies of scale of a particular type, promote research in technological and organizational matters, to eliminate middleman and exploitation, these are the legitimate purposes for which cooperatives can, and should, be established.
It appears that for Prof. Gadgil, the term 'weak' indicated extremely poor people in the society. He did not feel the need of elaborating on this because in the Indian context the weak were easily identifiable. Small and marginal farmers, landless labourers, artisans and similar kinds of rural producers are known to be weak because individually they are not capable of improving their economic conditions. Cooperatives are extremely necessary to weak sections. Because in the absence of mutually beneficial organisation the economic activity of each individual separately would be less than viable. With economies of scale obtained through cooperative organisations viability can be improved. But it should be noted that cooperative actions can also exist among those who are not weak so long as the attributes of cooperation are present.

4. The Modern Context

The socio-economic context in which the cooperative movement was born is too well known to need repetition. The beginnings were made with a view to protecting interests of weaker sections in society, such as poor consumers, small producers etc. Absence of any legislation to protect interests of the weak in the society and absence of State intervention to regulate industry and trade, led early pioneers to organize the weak and exploited sections into cooperatives, both among consumers and small producers. This became necessary in the context of the philosophy of laissez faire upheld in those
days. "That government is the best which governs the least" was the maxim. The role of the State was to be confined to the maintenance of law and order and the protection from external aggression. There were, therefore, no laws prescribing minimum wages or service conditions; there were no laws to prevent malpractices in trade such as adulteration etc.; there were no laws to regulate activities of moneylenders. The first cooperatives came into existence in this context.

Today's context, however, is quite different. The concept of welfare State has been accepted in all countries - rich and poor; the degree of protection offered to the weak and poor differs from country to country; so also the degree of regulation of trade and industry. However, there are efforts on the part of governments to control the unbriddled competition and its consequences on the poor and weak. In India, for example, we find legislation laying down conditions of service in the factories; there is legislation to prescribe minimum wages even for agricultural labourers, now, at least in some States. Government undertakes as far as possible to supply food and other essential commodities through fair price shops; moneylenders' activities are severely restricted and a competitive credit supply is organised. This does not mean that the government measures are satisfactory and successfully implemented. Far from being so. The point however is that today's context is different from the one in which the cooperative movement emerged as a method of protecting the poor and the
weak. To state precisely, today the cooperative movement is not the only or even the most important instrument of emancipation of the weak and the exploited.

This, however, does not mean that cooperative movement has no longer a role to play. It has still an important role both in backward and advanced countries. The role is twofold: (a) as an economic organization, and (b) as an inculcator of values and therefore as an instrument of social change.

As an economic organization, cooperatives are needed to obtain economies of scale, to replace trader-cum-moneylender and to improve cultivation practices. DRG has rightly emphasized the need of cooperatives in the case of small and marginal farmers, in the field of processing, marketing etc. Even in the case of workers and consumers the need of having cooperatives is clearly felt. They are necessary not only to improve their conditions on the basis of self-help but they are necessary even to set in motion a political process which is essential for the formulation and implementation of development plans which have an objective of establishing an egalitarian and exploitation-free order. The importance of such organisations of the weak has already been noted in the previous section.

As inculcators of new values, cooperatives have important role to play. Particularly in countries like India, where the democratic traditions are weak, cooperatives can act as schools to impart training in democratic methods. This role has been discussed later in the course of this work.
In advanced countries, too, cooperatives are essential. The situation there is of course different from that in backward countries. Poverty in the absolute sense is abolished. Social security schemes cover the entire population. Conditions of service in private and public sectors have improved significantly. Life of an average man has become quite comfortable. It is, however, pointed by many that even in this state of economy, cooperatives of all kinds are essential. In agriculture, cooperatives are indispensable in matters relating to acquisition of inputs and implements and various kinds of services and in regard to marketing of produce and products of allied activities (milk, poultry products, meat etc.). It is further pointed out 8 that cooperatives are essential to protect the interests of consumers. Production is increasing and a lot of new commodities have been appearing on the scene. To make production of these profitable, means are employed to create demand artificially and as a result "advertising has become one of the fastest growing industries". It has become a new instrument to exploit consumers ignorance. Pollard writes: "It is precisely because modern wages and salaries are well above subsistence level and therefore allow a considerable latitude in the expenditure, that exploitation by the advertiser and the manipulator enjoy very much wider scope." 9 Apart from this, advertising affects the quality of social life and

8 Sidney Pollard. The Cooperative at the Cross Roads.

9 Ibid.
lowers social values. "The real count against advertisement is that it is responsible to a large extent for the lowering of the whole quality and aims of social existence, by glamourising material goods and hoisting human ambitions to prize them as if they were the most important things in life. It is the epitome of the 'Acquisitive Society'."\textsuperscript{10} Cooperatives are expected to fight this situation. In this situation cooperatives have to act as insculator of values and also as economic organizations to a considerable extent. It does not mean that cooperatives prefer poverty or wish to arrest progress. Rise in income has to be welcome. They should enlarge their scope and include a broad group of income earners representing the majority of the population. "They should strive first to raise the acceptable minimum and second to exert the purchasing power for directing production for use, for breaking monopolies, promoting cooperatives in production field and so on."\textsuperscript{11} Cooperatives cannot discharge this responsibility unless they cover not only the weak but a large majority of the society.

5. \textbf{Is Cooperative a Firm?}

DRC does not regard cooperative organization as a separate firm; this is evident from his remark cited earlier in this chapter. He appears to believe that this is an obvious and an already established fact. He, therefore, does not feel

\begin{itemize}
\item \textsuperscript{10} Ibid.
\item \textsuperscript{11} Ibid.
\end{itemize}
the need to discuss this issue. However, since he is making
a positive statement that a cooperative is not a firm, it
seems necessary to note the controversy in brief in this
regard.

The argument of the economists who affirm that coopera-
tive association is not a firm may be briefly summarized as
follows.

Richard Phillips\textsuperscript{12} attempts to develop, on the basis of
the contemporary economic theory of the firm - but with adapt-
ation of the cooperative structure - a realistic, workable and
reasonably complete theory of the economic nature of the co-
operative association. This theoretical framework involves:
(1) the economic structure of the cooperative association; (2)
the economic relationships among the participant units; and
(3) the conditions necessary for profit maximization in the
cooperating firms.

As regards the first, Richard Phillips contends that
"when a group of individual firms form a cooperative associa-
tion, they agree mutually to set up a plant and operate it
jointly as an integral part of each of their individual firms
(or households in the case of a consumer cooperative). The
cooperative has no more economic units than one of the individ-
dual plants of a large multiplant firm. Instead the participating

\textsuperscript{12} Richard Phillips, "Economic Nature of the Cooperative
Association," in Martin A. Abrahamsen and Claud L. Scroggs(ed.).
Agricultural Cooperation: Selected Readings. Minneapolis:
firms agree to function coordinately with respect to their joint activity. This agreement runs multi-laterally among the participating firms, rather than between each of them and the joint activity as such. These participating firms must function as an economic team in relation to their coordinated activity. They must forgo some of their individual sovereignty in favour of themselves as a team. It is technically correct to speak of the cooperative plant and of cooperating firms, but not of the cooperative firm. As an economic institution, the cooperative association is not an organization of persons, either as labourers, as capital contributors, or as patrons, for that matter. It is an organization of sovereign economic units.

As regards the inter-firm relationships, Phillips observes that proportionality determines the manner in which the firms participating in a joint plant share the economic functions in the joint activity. "The cooperating firms individually seek to maximise their profits — considering that part of their operations in the jointly operated plant as well as their individual operations outside of it. ... The participating firms are ordinarily vertically integrated in the sense that the output of the joint plant is the raw product input of the individual plants of the participating firms — or alternatively, the output of the individual plants of the participating firms is the raw product input of the joint plant. As products move from one plant to another in a vertically integrated firm, no transfer of title takes place and no price is established for
them. Such a firm is not interested in the profitability of any one of its plants considered alone. Rather it is interested in the profitability of the complete chain of integrated plants operating as a unit. ... One reason firms find it economic to operate a plant jointly, rather than carry out the same production process individually, is a decreasing long-run average cost-curve over a considerable range for a part of the total economic function, or contemplated function, of the several firms. By pooling this part of their activities and functioning coordinately through a common plant, they are able, under these conditions, to increase their economic efficiency by approaching more nearly optimum size for this operation.

What about the conditions for optimum stability in the participating firms? Phillips lays down two conditions. First, as long as it is economic, the anticipated conflict of interest among participating entrepreneurs must be minimized. This means an association of reasonably homogeneous participating firms. Second, participation in the joint activity in itself tends to reduce the anticipated variability of the profits of each firm over time. Vertical integration, by reducing the number of markets of concern to the participating entrepreneur, makes the profits of his firm more stable under temporary fluctuations in market conditions. Also, because of higher degree of coordination of the various processes, the vertically integrated operation will ordinarily be more adaptable to changing technical and economic conditions facing the firm. It is possible to increase stability by other measures also.
Frank Robotka,\textsuperscript{13} endorsing the view stated above, makes further clarification. According to him an important source of confusion in the thinking about the nature of cooperative association is failure to distinguish between legal and economic concepts. He also feels it necessary to make a distinction between the economic \textit{firm} and the economic \textit{plant}.

Decision-making and risk-bearing constitute the essential economic characteristics of a firm. Cooperative association has also these attributes. It is true that each firm participating in a joint plant must agree to share decision-making and risk-bearing, as they relate to the joint plant, with the other participants; hence each participating firm's status as a sovereign entrepreneurial unit is modified, at least insofar as the jointly conducted activity is concerned. However, he points out that the participating firms do not surrender their individual entrepreneurial prerogatives as they relate to the jointly conducted activity. Each still functions as a sovereign unit in deciding whether or not to participate in the jointly conducted activity. The decisions and risks relating to the joint activity are not those of a new firm, but of the participating firms.

The joint plant is not a firm further, because profit-maximizing theory of the firm is not applicable to it. "The decisions as they relate to the joint plant will be a part of

and economically integrated with the decision-making process of each participating firm, and will seek to maximise the net incomes of the respective participating firms, not of the joint plant. ... As participants in the joint decision-making process, member firms will function in the interest of their respective firms, not in their interest as entrepreneurs of a new firm. The association, as such, does not pursue an economic career of its own, independent of the economic careers of the member firms.  

"Finally," Robotka points out, "the profit-maximising theory of a firm is applicable to each of a group of firms participating in the operations of a joint plant, but it is not applicable to the joint plant itself; it cannot be reconciled with nor can it explain the distinctive feature and methods of cooperative associations, such as distributing proceeds on a patronage basis rather than the capital basis, identifying control with participation in the joint activity rather than with capital contribution, sharing costs and risks on a proportional to patronage basis, limiting the use of the joint plant primarily to the owners (members), obligating members to use the plant, and other characteristic practices of cooperative associations. But all these features and practices are readily explainable by and reconcilable with the concept of a cooperative conducted activity as a multifirm plant."  

14 Ibid., p. 132.  
15 Ibid., p. 132.
The attempt to apply to a cooperative organisation, a theory of firm formulated essentially in the context of a laissez faire economy is decried by some and a new way of looking at it is developed. Savage\textsuperscript{16} thus criticises the above approach. The theory of firm according to him solely rests on a premise of individualistic competition. In accepting this model, Savage contends that Phillips relegated the cooperative to the same pessimistic position as that of the classical economists, particularly Malthus and Ricardo, who assumed that resources are fixed and scarce, and that therefore man has to accept his environment. A major reason for the cooperative institution is that individuals have realised that they can do more than adjust to their environment. They can influence and change the economic society in which they as cooperative members live and carry on business transactions. Cooperatives are proof in themselves that man can help make his environment.

Savage looks upon a cooperative as a firm in itself capable of making entrepreneurial decisions just as any private corporation. It is a 'going concern' i.e. "an organisation of coordinated activity; it is collective behaviour with a common purpose, and a collective will governed by common working rules". The individual farmers have pooled certain of their entrepreneurial functions, and in so doing, they authorised a collective body to perform these functions for them. In the process a new

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agency is created to which some prerogatives are given. In essence, therefore, a new firm is created. It is quite similar to a corporation. "The main difference lies in the relatively greater power which members of a cooperative have to influence the collective will of their organisation."

DRG does not refer to this controversy. In the absence of any discussion by him, it is difficult to know how he arrives at the conclusion that cooperative is not a firm. From his entire literature on cooperation, however, he does not seem to attach any importance to the fact whether or not a cooperative is a firm. Cooperative way is an important value with him. Like Savage he seems to regard that cooperative is a superior way of organizing people, particularly members of weaker sections of society. Savage writes "The fact that cooperation is viewed by its patrons a superior way of doing business is very important. The fact that members look upon the cooperative as an association of people and not capital is also important." DRG appears to uphold this view.
CHAPTER XI

COOPERATIVE COMMONWEALTH

The Meaning of the Concept

DRG is not interested in establishing a few cooperatives here and there; he is interested in establishing cooperative commonwealth. "I am not satisfied with a patchwork of cooperatives, individual cooperatives here and there, cooperatives in a few regions or only in one sector. If you are looking at cooperation as an instrument of national development, a patchwork sporadically and randomly distributed is not of much help in national policy. What you want in a national policy is really an organised system of cooperative organisations." ¹

What he calls an organised system of cooperative organisations or cooperative commonwealth, however, does not mean cooperativisation of the entire economy. At the outset DRG makes it very clear that there is no possibility nor any need of having only a cooperative form of organization in all fields in the economy. Once we accept the definition of cooperative organisation as a mutuality, he concedes that the possible coverage of cooperative activity is severely limited. It is not possible to bring under cooperative form even a substantial part of the economy. DRG therefore stresses that cooperative

¹ Writings and Speeches of Professor D.R. Gadgil on Cooperation, 1975, p. 198.
commonwealth can be said to have come into existence if we achieve two things: first, establishing cooperative organisations, in the sense discussed earlier, wherever necessary, and second, permeating the entire economy with what he called "cooperative values".

What are these cooperative values?

The important values upheld and promoted by cooperation according to him relate to (1) small scale and dispersal, (2) incentives, (3) methods of controlling management, and (4) democracy and equality. Establishment of cooperatives helps to generate and strengthen these values and therefore they should be encouraged wherever possible. But care has to be taken to see that in the rest of the sector, these values get entrenched. BRG emphasises that "it is the structure and basis of a new or transformed society that is being considered and not the operation of a sheltered area within a capitalistic or socialistic society".  

This view is in consistency with the experience of the pioneers of the cooperative movement. The pioneers wanted to replace the capitalist system as known in the early stages of its development. The Rochdale weavers and Schultz-Delitzsche had cherished the idea of a cooperative system embracing the whole of society. In Germany the term "Gemeinwirtschaft" (commonweal) was coined to denote the same idea. In France,

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2 Ibid., p. 60.
Guide argued that the entire economic system could be transformed into a system of consumers cooperative societies. Local or regional consumers societies would form secondary cooperatives at a higher level, which would organise the remaining process of distribution, until finally the entire system of production including agriculture was organised in this way. These attempts, however, did not succeed. It was realised that it is no longer possible to overthrow the capitalist system in this way; nor was it any longer deemed necessary. Because on the one hand, regulation of economy has become increasingly accepted and on the other, it appeared possible to introduce values which are at the basis of the cooperative movement and permeate the whole economy with these values.

Let us therefore consider these important values advocated by DRC.

**Emphasis on Small Dispersed Units**

DRC writes: "In relation to the structure of productive organisation or economic organisation in general the emphasis of cooperation or economic organisation would be on operating, as far as possible, through small independent units. These units would cooperate together for achieving economies of scale and for other mutual beneficial activities. ... Cooperation would emphasise dispersal and decentralisation of activity and would put the small independent enterprise and the primary cooperative unit at the centre of the economic picture. This
is consistent with the origins and continued motivation of cooperative activity as being concerned with the protection and strengthening of the small and the weak. 3

It is clear from this statement that DRO would prefer dispersal and decentralisation of production unit to the extent possible. At the same time he does not want a cutthroat competition between them. The concept of cooperative commonwealth has to be understood in this typical context. There can be two ways of having cooperative commonwealth. Cooperative commonwealth as a formally federated structure of actually existing cooperative institutions say in the fields of marketing, credit, production, consumption etc. is one way of having cooperative commonwealth. However, DRO seems to be visualising cooperative commonwealth not so much in form but in spirit. In his conception cooperative ideals are promoted when there is a dispersal and decentralisation of productive activity in a large number of independent small units which are actuated not by considerations of profit in the narrow sense. These units realize that their collective and several interests are promoted by some degree of cooperation between themselves; in this context though there would be some competition between the various units, cutthroat competition would be absent. In this way the implicit recognition of the wider benefits of adhering to cooperative values in a sense binds together the dispersed individual units and

3 Ibid., p. 60.
furthers the ideas of cooperation. There is not necessarily a formal organisation. This seems to be DRG's conception of the cooperative commonwealth in spirit though not necessarily in form. This is consistent with his statement quoted in the introduction to chapter (page 276) to the effect that cooperative way means primarily that competitive spirit and competitive practices are given necessarily an inferior place. The special sense in which cooperative commonwealth is understood by DRG is also consistent with other values recognized by him, discussion of which follows.

The Nature of Incentives

The second important value relates to incentives. In a cooperative commonwealth, men are not guided in their work solely by hopes of material gain; "they recognize the importance of group and social obligations and are ready to accept voluntarily limitations on expectations and rewards and to exhibit restraints in behaviour patterns in pursuit of economic gains. Non-economic incentives such as social recognition and opportunities for social work are of value in motivating them and efficiency and sound business are compatible with a regime of deliberately limited economic incentives."

This is in keeping with the basic philosophy of cooperation. It may be recalled that the earlier cooperators insisted on not just democratic control and limiting returns on capital

4 Ibid., pp. 60-61.
but they wanted to establish a new social order which would modify the profit motivation, the distinctive characteristic of competitive economy and adopt the principle of production for use and equitable distribution; they were interested in creating not just a new type of institution within the capitalistic framework but their ultimate objective was to lay down the basis of a new society. Owen thus attempted to establish new communities. The aim was "to withdraw from the contemporary world and establish whole communities on new principles". It was hoped that such new communities would ultimately transform the entire society. These efforts failed but the cooperators continued attempts to realize the objectives. There is a difference between the Owenites and the modern cooperators. Whereas Owenites advocated self-sufficient communal colonies which would provide all the goods and services needed and which would eventually 'transform society', cooperators now restrict their objectives to meeting particular needs through specialized associations functioning within the framework of the existing exchange economy; whereas the Owenites contemplated a community of interest in property and common sharing of benefits within the colonies, practical cooperators have built upon a recognition of individual private property interests and of participation in benefits in proportion to participation in the activities of the organization;

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5 Ibid., p. 59.
6 Ibid., p. 59.
whereas the Owenites (Utopian) contemplated relying upon public spirited citizens and philanthropists for capital, co-operators now recognize the necessity of cooperators themselves assuming responsibility for providing the capital necessary, at least for the basic financial structure and in fact, for all the usual entrepreneurial responsibilities. 7

With the failure to establish new colonies, eventually transforming society and thus knocking down the basis of capitalistic society, the question is how the values such as social obligations, accepting voluntarily limitations on expectations and rewards, exhibiting restraints in behaviour pattern in pursuit of economic gain etc. can be established. This is rather an exceedingly difficult task and DRG does not attempt to offer any suggestion as to how these can be attained. The existence of cooperative sector within the economy itself may not be capable of influencing policy of the government as well as of the industrial organizations from this point of view. In fact the values established in the sector outside the cooperative one are likely to affect the values prevailing in the cooperative field. The experience of Trade Unions of industrial workers is quite illustrative of this. Originally even trade unions were supposed to bring together the industrial workers to safeguard the interests of working class as a whole. The underlying principles were, in essence, the principles of

7 Robotka in Martin A. Abrahamsen and Claud L. Scroggs (ed.). Agricultural Cooperation, op.cit., pp. 121-122.
cooperation. As the movement grew, different industrial sectors and plants came to have their own independent trade unions, looking after interests of small groups of workers, working in a particular factory. The solidarity of workers' class was lost. Organized workers in modern industries came to forget the interests of their counterparts in other sectors of the economy. Today, we find small unions of workers belonging to a particular industrial plant, struggling for getting higher and higher share in the profits, earned by their plant. They have become oblivious to the interests of unorganized, and weaker sections of their own class. This is now the common experience. Desire to save and invest may not be prompted by non-economic motivations but by motivations to earn maximum returns. It is the common experience again, that production which is not necessarily essential or production which is even harmful, is more profitable and companies producing these usually are in a position to offer high returns on investments. Production of luxury articles, alcoholic drinks etc. can be cited as examples. Quite naturally therefore investments flow in these industries. Qualified personnel also prefer to work in these industries rather than in cooperative industries. Research talents and resources also are pressed in to serve the needs of these industries. All this means that resources - financial and human - would not be available to cooperatives on an adequate scale. How can cooperatives compete with these industries, that is an important question. DRG has unfortunately not given thought to this aspect; he however
appears to place his faith in the fact that a cooperative sector, however small, would be in a position to permeate the entire economy with these policies. What should be the nature of government policy in order to facilitate such a permeation is also not considered.

Control and Ownership

Deliberate divorce of control from ownership is another important operative aspect of cooperation, to which DRG draws attention. DRG does not elaborate the point beyond saying: "This is related, in part, to the attitude of cooperation towards incentives; it is also related to the belief that control of economic activity arising out of concentrated power and in pursuit of private gain has serious disadvantages and that control operations which are connected only in part with hopes of such gain can both be efficient and socially beneficial." 8

In order to understand this statement, we must first note the manner in which the business of a cooperative is conducted. Cooperative organisation is established by small individual sovereign units or firms. While establishing the cooperative plant, the individual units do not sacrifice their independence but treat the operations of the cooperative plant as part and parcel of their individual business. The distinctive features of a cooperative are (1) identification of control

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8 Writings and Speeches of Professor D.R. Gadjil on Cooperation, op.cit., p. 61.
with participation in the joint activity rather than with capital contributions, (2) distribution of proceeds on a patronage basis rather than the capital basis, (3) sharing of costs and risks on a proportional to patronage basis, and (4) limiting the use of joint plant primarily to owners (members).

It is clear that cooperative organization is basically different from other economic organizations like say a corporation. In corporation control is identified with capital contribution, because the major risks are borne by stockholders as contributors of capital and proportionately to the amount of capital invested by each. "In a corporation there is a further tendency to concentrate control in the hands of a few shareholders through the limitations of voting power of preferred stock and the general withholding of the vote from capitalists whose capital contribution is evidenced by bonds, through the use of proxies and through the device of holding company and voting trust to concentrate control in the hands of a few. The original control group, likewise, often entrenches itself further in power by offering any new issues of stock to itself on favourable terms or by transmitting accumulated earnings into stock dividends."9

As against this, control in a cooperative is identified with and conditioned upon participation in the joint activity. Membership in a cooperative rests upon a personal basis, rather

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9 Martin A. Abrahamsen and Claud L. Scroggs (ed.). Agricultural Cooperation, p. 171.
than upon an impersonal financial basis. People voluntarily come together on the basis of their community of interest, personal qualifications and ability and willingness to assume the obligations implicit in mutual undertakings, particularly with respect to patronage, risks and costs.

Nourse summarizes the cooperative philosophy as follows:

(1) All invested capital should be put in the category of loan funds, divested of voting power or control over the affairs of the association. Instead, voting power should go to members duly admitted because of their participation directly in the business to be done by the association.

(2) By the prohibition of proxies, limitation on the amount of stock which may be held by an individual, abolition of holding companies and trust arrangements and the transfer of governing power to members, each of whom votes as an individual, democracy of control is substituted for the old autocracy.

(3) Instead of closed stock lists and mounting dividends or the cutting of "lemons" for the few, cooperative organisation requires a membership list open at all times to any person of good repute who is engaged in the business which is carried on by the association, the membership to terminate whenever he ceases his participation in the given pursuit.10

The statement of DRG that in a cooperative there is a deliberate divorce of control from ownership has to be understood

10 Ibid., p. 171.
in the context of the situation prevailing in a corporation where those who contribute capital are supposed to be the owners of it. Cooperative organization, on the other hand, aims to perfect a system of bringing many individuals together in business associations which will retain the personal interest and responsibility of the individual, instead of submerging it or allowing it to be lost as is the case in the highly impersonal form of the ordinary corporation. "It has often been rightly pointed out that cooperative association is a union of persons, whereas the joint stock company or corporation is a union of capitals. Obviously the capital contribution to a stock company must have a personal (or institutional) owner. But it has been one of the strong features of the corporate form of business that it could make its appeal to a large and widely scattered public following on the basis that no personal participation in the affairs of the company is required; and it has been a rather notorious fact that even the great leaders of railway, industrial and mercantile corporations have in many cases known little or nothing of railroad operation or the steel, leather, sugar or whatever business which was to be carried on by the company. Their contribution has been that of the 'financier', promoter, or, alas, stockjobber, and success in operation, if it was attained, has been thanks to the skill of a hired manager and his subordinates."

As can be seen from the above, in a cooperative there is

11 Ibid., p. 171.
an attempt to keep ownership and control coextensive. The owners, that is those who create cooperative are not passive owners like those in a corporation or company; they are concerned with the day-to-day management of the cooperative. When DRC refers to the belief that "control arising out of concentration of power and in pursuit of private gain has serious disadvantages" he implies that such concentration of control is avoided in a cooperative and that in a cooperative it is not narrow personal gain but the gain of all members that is sought. It is not an ordinary commercial undertaking aiming to derive a profit from the carrying on of business with the general public. "Instead it brings together a group of people who, having a common need of certain facilities, set up a mutual service agency to operate at cost under the personal control of such persons, who themselves contribute the patronage upon which it depends."\footnote{12}

Though ownership and control are coextensive in a cooperative, in the sense described above, in practice, it may be noted, divergence may occur in certain circumstances. The interests of individual members in the operations of a cooperative may vary depending upon the extent to which one is dependent on or involved in the work of cooperative. The volume of transaction, for example, in a marketing society may vary from member to member. Some members may have larger transactions while others may have small or negligible transactions during

\footnote{12 \textit{Ibid.}, p. 172.}
a particular period. In such circumstances, policies may be influenced by a small section of membership who have more stake in the success of cooperative. Apart from this the general lack of interest in the day-to-day operation, exhibited by the average member may result in the concentration of control in the hands of a smaller number of members. We will refer to this phenomenon later again in the following chapter. With all these limitations, it is certain that in a cooperative, control is not likely to be concentrated in the hands of few who do not directly participate in the business to the degree to which it is found in a corporation.

The modern cooperators, however, have realized the need of bifurcation of control and ownership in a cooperative. It is argued that in present times, cooperatives have to face a situation which is vastly different from that faced by pioneers in cooperation. The size of the cooperative is becoming larger and the nature of business is becoming complicated. Nourse, for example, pleads that in America, cooperatives have to strengthen themselves in order to fight against the evils of capitalism. Cooperation is one of the powerful instruments to prevent capitalism from degenerating into a monolithic, all-pervasive and de-humanizing system. But in order to succeed in this task, it is necessary to pay attention to matters relating to business efficiency. It follows that methods of control over cooperatives have to be revised. The old co-

13 Ibid., p. 58.
operative doctrine emphasized its democratic character and the personal participation of the individual member. In the modern situation, there is a need to concentrate control in the hands of a small management group or even a single manager and of foregoing any counsel from members or even directors, as well as escaping any interference on their part. There is therefore a big question: how to reconcile the cooperative ideal of democracy with the commercial expediency that requires simple effective control and operation? "On the one hand, there is a need to delimit the zones of individual member's control over general policy, current action, personnel and other questions to a point compatible with the possibilities of informing him and with his ability to arrive at sound and helpful judgements. On the other, there is a need to keep the member though remote from the actual business management, in a state of loyalty to the cooperative, a sense of oneness with the group and ready to abide by its necessary regulation of his own production and marketing activities."

We will have occasion to deal with this aspect in more detail in the following pages.

**Democracy and Equality**

Democracy and equality, the universally accepted values, have also been included as the important values of cooperative commonwealth. DRG pleads that these values form the core of the cooperative way of life, and, therefore, it is through the

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14 Ibid., p. 58.
establishment and multiplication of cooperatives that these values can become the sheet-anchor of the entire society. He realizes, to repeat, that the entire economy cannot be brought under cooperative order; but he feels that if cooperatives are established wherever possible, the cooperative values can become accepted in general and other forms of economic organizations - both in public and private sector - would also be encouraged to accept these values and practices. The cooperatives thus would initiate and build up pressure for the acceptance of these values in the society.

Though these values become obvious from the philosophy and nature of cooperation, it may be useful to list the important features of cooperation, which embody these principles of democracy. D.R.G. does not list them systematically but it is possible to enumerate them from his writings. These are as follows:

(1) Cooperation insists on small units. Membership is open to all those who want to participate in the joint activity. It has its own specific philosophy of control. It, therefore, follows that cooperation "favours great diffusion of ownership of resources and where such diffusion of ownership is not possible, will insist on the diffusion of power". Further, there is insistence on the centrality and importance of the primary and the local group. Cooperation is thus against concentration of control not only in the sense of concentration

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15 Writings and Speeches of Professor D.R. Gadgil on Co-operation, op.cit., p. 61.
in the hands of a few individuals either in the economy as a whole or in individual industries. Cooperation stands for diffusion of power through the whole structure through its insistence on what is best called "federalism". The autonomy of the primary and intermediate groups is carefully guarded, though minimum requisite power is always available to the central organization and the top strata. 16

(2) Cooperation emphasizes non-economic incentives and fair sharing; it discourages high rewards associated with the ownership of capital. Thus it favours a relative equality in distributive shares.

(3) What is perhaps more important is that cooperation implies "fair sharing of gains through mutual adjustment and understanding. The possibility and actuality of independent cooperative organization of all kinds of economic interests make possible a meaningful articulation of the points of view of different groups and avoid the facile assumption that often leads to identification of national interest with a particular view and requires that other groups' point of view should not be pressed. On the other hand, cooperation while accepting thus openly the possible conflicts of interest of groups, regions etc., must by its very nature, make arrangements for a peaceful settlement of all possible differences of opinions and their reconciliation". 17

16 Ibid., p. 61.
17 Ibid., p. 62.
(4) Cooperation favours savings through deliberate joint social effort rather than through offer of high incentive rewards to individual savers.

(5) Cooperation emphasizes educational and cultural values and the responsibility of the social group for not only protecting but grading up the quality of individual members. "Equality in this case is achieved not as a condition precedent but as a result of the practice of cooperation". 18

The philosophy of cooperation as summarized above stands formidable from a theoretical point of view. It is, however, necessary to see to what extent it can be practised.

It is true that cooperation insists on small units as far as possible. In agriculture, it favours abolition of zamindari, imposition of ceilings on land holding and granting ownership of land to the actual tillers. In the Indian context as DRC put it rightly, small uneconomic farms numerically predominate though not in terms of area possessed by them. In regard to these some kind of cooperation is essential in order to improve the agricultural business. We have discussed this point at an appropriate place. For economically viable farms, cooperation is useful and advocated not necessarily in regard to actual cultivation but in regard to procuring inputs including credit and in regard to marketing or processing of their products. DRC thus makes it clear that cooperation in agriculture does not involve nationalization of land or of other

18 Ibid., p. 61.
allied activities; nor does it insist on any rigid form of cooperation. In fact it insists on retaining private ownership of land and cooperative ownership of activities relating to agriculture.

Insistence on cooperative ownership entails dispersed small-scale units. The number and size of cooperatives will be influenced by geographical considerations. Small land units can come together. In the case of farming cooperatives, only those who are near to each other can form such a cooperative; the number participating would depend upon considerations like capacity of cooperative to serve the needs of members optimally. Large cooperatives embracing a large number of farms spread over a large area are not likely to be effective. So also cooperatives dealing with marketing, processing and other activities connected with farm business have to be small and dispersed. The cooperative plant has to be within the reach of the participating members. Thus small cooperatives, widely dispersed, is the obvious necessity.

Outside agriculture, there are artisans, small industries and large-scale industries. Besides there are activities relating to extraction such as mining and public utilities like transport, for example. As stated earlier, it is not possible to bring the entire economy under cooperation. DRC does not insist on it. He seems to contend that if the entire economy is pervaded with cooperative values, in essence it amounts that cooperative commonwealth has been established. The
question, therefore, is: Can we introduce these values in the economic sector where cooperativization is not possible? The answer is in the affirmative provided we meet two requirements. In the first place, we make cooperatives genuinely cooperatives in the sense that they remain cooperatives not in form but in spirit. We further try to extend the cooperative sector to a significant extent so that it will become large and strong enough to build up pressure in the society to accept the values, cooperation stands for. Secondly, the government too accepts these values not only in principle but also develops its entire social and economic policies based on these values and acquires capacity and the will to implement the same.

We will discuss the latter in detail in the following chapter dealing with the role of the State. Suffice it here to state that DSG has been consistently hammering on the need to orient the entire government policy towards the development of small-scale dispersed industrial growth. He drew attention to the fact that policy-decisions relating to large-scale industries, finance, location, licensing etc. have to be properly oriented so as to serve the ultimate goal.

DSG very rightly emphasises "the centrality and importance of the primary and local groups". They really form the core of cooperation and democracy. It is however assumed that the primary units plan their own activities and are capable of implementing their plans. In this task, they get assistance
and guidance, if necessary, from the cooperative organisations at a higher level. But the primary groups do not surrender their freedom and autonomy. In other words the primary and local units are largely self-governing and self-regulating organisations. They are not the instruments of government or other State organisations. If the primary groups act in this way one can say that cooperation breeds values of democracy and equality. It is time and again pointed out by eminent thinkers that the essence of democracy lies not in the general right to vote but in the existence of vibrant, small, numerous self-governing social organisations. Aldous Huxley, for example, emphasizes this point. He is pessimistic about the possibilities of maintaining and extending the democratic system under the present political, economic and social conditions in the world. He admits that right to vote is a great privilege. "In practice, as recent history has repeatedly shown, the right to vote, by itself is no guarantee of liberty. Therefore, if you wish to avoid dictatorship by plebiscite, break up modern society's vast, machine-like collectives into self-governing, voluntarily cooperative groups, capable of functioning outside the bureaucratic system of Big Business and Big Government."19

The view taken by DRG is quite similar to this. The earlier cooperators too saw in cooperation an opportunity to

19 Aldous Huxley. Brave New World Revisited. Cited by Maurits Bonow, The Role of Cooperation in Economic and Social Development in Cooperative Leadership in South-East Asia (A collection of papers read at the Seminar on Cooperative Leadership in South-East Asia held at New Delhi, November 1960), 1963, p. 27.
spread and stabilize democratic values. Cooperatives have always been regarded as "schools of democracy".Webbs, for example, regarded cooperative as a form of social ownership and not just only 'a democratic form of ownership' but as 'the most democratic form of social ownership'. It was thought to be 'most democratic' because it was the only economic organisation where one and all members get an opportunity to participate directly in the management. In other words, in a cooperative there is a possibility of having 'direct democracy', which is supposed to be the ideal form of democracy.

In principle thus the primary and local cooperatives provide opportunities for practising democracy. However, in practice much depends upon the nature of business conceived, the share of individual members in the total business, general awareness and intelligence of members, the social-political milieu in which cooperatives operate and so on. When we look into the actual operations of the primary units, we get disappointed. Take, for example, cooperative credit societies in India at the village level. These are the organisations, whose main function is to distribute the credit taken from higher authorities. The rules for distribution are uniformly decided at higher levels. There is no scope for the local groups to decide practically anything. These units act more or less as arms of bureaucracy and they enjoy practically no authority or freedom in any matter. Since credit distribution is not linked with crop planning or other matters of production, there is really no scope to think of a collective action or
collective life as such. As regards marketing too, the limitations are serious. When cooperatives act as government agencies for procuring surplus, the line of action is more or less fixed and prescribed. Price policy is decided by the government and it will be influenced by various considerations. The creation and use of bufferstocks is again a subject-matter over which cooperatives are not likely to have any influence. Thus practically in all fields, if cooperatives act as government agencies, the ideal of primary cooperatives working as vibrant, autonomous and self-governing units is hardly likely to become a reality.

Apart from this, it is necessary to note that the size of even primary units will not always remain so small as to give opportunities for individual members to participate directly. DRC himself appears to recognise this possibility. When cooperatives become large and operate for a larger area, direct democracy has to be replaced by indirect democracy. In that case the limitations of representative form of governance become unavoidable. When this happens representatives do not necessarily represent the will of the members; once elected they enjoy certain independence and privileges and start using their positions not necessarily to represent the will of the general membership but to serve their own political and other ambitions. Once they are entrenched in their positions, they cease to represent the general will of the members and start acting as agents of outside forces.
There is a further point. In the interest of efficiency, it may become necessary to delegate the powers to officials, who are employed and not elected. It is universally observed that the Boards consisting of representatives, tend more and more to restrict themselves to "direction" rather than "management". There is thus less and less of self-governance.

The problem of 'apathy' again is one of the difficult problems faced in such organisations. This problem has proved to be an important obstacle not only in developing countries but also in advanced countries like England, which is supposed to be the home of cooperation. It is argued that because of apathy of an average member of a cooperative, cooperatives instead of becoming guardians of democracy tend to become pillars of oligarchy. Those with drive and political ambitions, develop 'vested interest' in the apathy of members. There is thus what Michels calls "the iron law of Oligarchy", which states that as the organisation reaches a certain size and attains a certain degree of complexity, the people who exercise authority by virtue of their position in the organisation are controlled by the people with less authority only in 'a negative way'. They tend to become an irresponsible oligarchy. Provided the leaders know how to handle the human material with which they have to work, they do what they like.


21 Ibid., p. 217.
They are limited in their power only in the negative sense in which an artist is limited by the materials he employs.

The tendency to become oligarchic is enhanced particularly when organisations derive sustenance from the state to a very considerable extent.

In addition to this, there are typical psychological factors present in a backward society. The vast majority of members feel the need to be directed and guided. Instead of participating as equals in the operation of a cooperative, they prefer to take shelter behind strong personalities.

It is thus clear that it cannot be assumed that cooperatives are necessarily the usherers of democratic values. Much depends upon the role of the state, behaviour of great leaders in the society, working of political parties and the traditions of the society. Democracy is something more than a matter of structure or constitution. It is not something achieved once for all. It is to be lived and lived continuously. Cooperatives can be helpful in this matter but by themselves they are not enough.

Outside the cooperative field, i.e. in the public and private sectors, the process of democratization meets with important obstructions. There are psychological and technological factors obstructing the process. As regards the latter, we are witnessing a rapid movement towards more and more sophisticated technology in all fields of production. Large investment, costly research and manipulation of market
forces are some of the important features of this sector. These make older forms of democratic control obsolete. How can we introduce cooperative values in this sector, is a question which has not yet received a satisfactory solution.

The nature of wage-earners and that of an average citizen are also equally important. An increasing proportion of working force is getting absorbed in the modern industrial sector. One prefers a job to self-employment. One of the important reasons for this preference is that in modern times, the state effectively ensures minimum security and welfare of the wage-earners as well as of an average citizen to a certain extent. Trade unions are becoming effective instruments not so much for democratization of the management but for safeguarding the interests and welfare of workers. The whole concept of 'welfare state' is a surer, faster and easier method of getting what one wants. Interest in participation in management is becoming of less and less importance; control over the direction, in which the economy and technology are moving, is no longer a felt need.

It is thus difficult to introduce democratic values, for which cooperation stands, in the general economy.

Summing Up

We can now sum up the discussion on the concept of cooperative commonwealth.

Though the term has been in use for a long time, the concept remained amorphous. DRC realized it and tried to make
the concept clear. While clarifying the concept, he makes an important point that while an individual cooperative organisation has to be defined in terms of mutuality, the concept of cooperative commonwealth has to be built up independent of the principle of mutuality. Cooperative commonwealth does not mean merely a network of cooperatives because he realises that there are serious limitations on the extension of the cooperative sector. Therefore what is important is to underline the values, cooperation stands for and extend the same to other sectors.

The important word is commonwealth. It implies end of all privileges, whether of caste, class or wealth. It is essentially socialistic in character. But cooperative commonwealth is different from socialistic commonwealth. The socialistic commonwealth can be totalitarian or collectivist and can be based on regimentation. DRC does not seem to favour this. He states that if the values of freedom and democracy are to be preserved and self-government and self-employment are to be encouraged, it is not enough to aim at commonwealth alone. The commonwealth must be cooperative in character in order to provide essential requirements of freedom, equality and progress.

Since there are limitations on extending cooperative order to the entire economy, he agrees that cooperative sector will coexist with public and private sectors; but the latter two should be pervaded with the cooperative values. Otherwise
not only the cooperative commonwealth will not come into existence, but the character of cooperative sector itself will be affected. It is then the primary responsibility of the State. He writes "In fact, the state can, if properly oriented, be considered responsible for impregnating cooperative values in spheres in which actual cooperative organizations may not be established. This is the only way in which a completely cooperative commonwealth can be brought into existence and can be made to function." In India, 70 per cent of the population is still dependent on agriculture, and a majority of it consists of small and economically weak producers; the field of agriculture can be brought under cooperation not only by establishing some sort of cooperative organization for production but also for marketing, processing, etc. Then alone these millions of people can be enabled to enjoy the benefits of cooperative commonwealth. For the remaining sector, efforts will have to be in the direction of establishing broadly what may be described as the non-exploitative order. The private sector must be informed by a sense of social purpose and must increasingly provide for workers' participation in management. In the public sector also, there must be more and more reliance on the principle of self-governance.

Thus the cooperative commonwealth, while aiming at socialist goal, differs from socialism. It differs from

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22 Writings and Speeches of Professor D.R. Gadgil on Cooperation, op. cit., p. 62.
socialism in that it does not emphasize public ownership of means of production. Ownership is diffused and as far as possible the major aspect of economic activity will be conducted jointly by those involved in it. Cooperative commonwealth has further a special approach to the operation of the economic society and incentives; DRG maintains that large number of socialist thinkers and socialist economies do not differ radically from capitalism or capitalists in this regard.23 The role of the State is another matter in respect to which cooperative commonwealth has a different view. There is the insistence on small units, on federalism and on voluntary efforts; consequently cooperative commonwealth does not give overwhelming role to the State.

Differences with capitalist order are obvious. DRG attaches more importance to the moral view of economic activity implicit in the cooperative commonwealth. "Cooperation insists on incorporating the concept of justice and of social obligations into the structure of economic society and recognizing moral values as being a non-separable part of the operation of economic life and activity. In doing this, its whole attitude towards incentives, controls, ownership etc. is marked out sharply from that of capitalism."24

Thus while bringing out the importance of cooperative commonwealth DRG seems to rely more on the State to bring it

23 Ibid., p. 63.
24 Ibid., p. 64.
into existence at least in the initial stage. This takes us to the subject viz. the role of the State in promoting cooperative movement. Before we proceed to this subject we may note briefly the changes required in the cooperative order in the modern context.

(1) Cooperative must be economically efficient. There can be no two opinions about it. Efficiency may require enlargement of local or primary units. This may invoke resistance from very small local groups. The problem would be: Shall the cooperative be maintained as a local institution at any cost?

(2) Business gradually becomes larger and complicated. This requires concentration of authority in order to make it efficient. This implies reduction in the influence exerted by local units on the authority responsible for business. The problem is how to achieve concentration of authority and keep an intimate understanding of the member and his problems.

(3) Efficient operation requires a stronger financial structure. Member capital is not enough. Capital will have to be attracted not only from members but also from other sources. Since private and public sectors also compete for capital, cooperative will have to devise its own techniques to compete successfully for securing adequate capital.

(4) Greater emphasis on research is needed; research as to how to improve efficiency in production, marketing, processing etc. Also a good deal of energy and resources will have to be allocated for training the attitudes of not only of members but of all citizens. In the general programme of education,
education regarding cooperative values will have to be imparted at an early stage. Then alone citizens will be able to appreciate them and practice them.
CHAPTER XII

STATE AND COOPERATION

I. Cooperation as an End and Means

DRG favoured state-sponsored cooperative movement in developing countries as against the pure voluntary and self-reliant cooperative movement in Western Europe. State sponsorship, however, is desired by him for a specific purpose. He wanted state to take initiative and sponsor cooperatives both as a means and as an end. As a means because state cannot implement the development programme without the assistance of voluntary organisations at the grassroots. He draws this conclusion from the examination of development experience of many countries. He found that "mere direct government assistance could provide no permanent solution or bring about lasting improvement"; creation and strengthening of cooperatives was, therefore, an essential part of development planning in these countries. At the same time, DRG was of the opinion that establishment of cooperatives should be an end in itself. Because in his ultimate vision of the society, self-governing voluntary organisations have the central place; people themselves, through voluntary organisations should prepare develop-

1 Writings and Speeches of Professor D. R. Gadgil on Cooperation, 1975, p. 23.
ment plans and also implement them. The role of the State is to help this process.

Prof. Oadgil reviews the historical evidence of some countries in order to establish that such a role is possible. He selects Mexico, South Italy, Turkey and Japan for this purpose. In Mexico, he finds that agrarian conditions were too backward to promote a spontaneous development of cooperative movement. The National Bank of Ejidal Credit, an official organ of the Government of Mexico, took initiative not only in establishing cooperatives but also in completely directing their operations. Because these were too primitive to draw up a general plan of cultivation; they were not capable of discriminating between capable and incapable members who ask for loans; further as members could not be trusted to spend their loans on the purposes for which they were intended, the Bank had to devise special measures for this purpose. The Bank did not merely concern itself with credit operations but undertook to set up agricultural experiment stations, conducted investigations into agricultural problems and published informative literature. In this manner it became the principal agency for the guidance and development of the ejidos (i.e. cooperative farming estates).

In South Italy, government thought it necessary even to make membership of cooperatives compulsory for all, at least for a period of twenty years. This action was deemed essential

2 Ibid., pp. 23-30.
because the government realized that the farmer, left to himself, will not be able to make any progress. The cooperatives, thus set up, were carefully guided by the Land Reform Agency.

In Turkey too, government acted on similar lines. DRG, however, adds that there was an important lesson to be drawn from Turkey's experience. In Turkey, the whole cooperative structure remained somewhat weak; it lacked strength, cohesion and voluntary discipline. The reason is that "the superstructure was built up before the foundation".

History of Japanese cooperative movement revealed to him some additional trends. Direction and participation of the government was vigorous but at the same time foundation was equally sound. Therefore the cooperative structure that emerged was, unlike in Turkey, sound, dynamic and autonomous. During the Second World War, cooperatives underwent drastic changes. Autonomy was suppressed and cooperatives became totally identified with bureaucracy. The control was so complete that it hardly could be called a voluntary organisation. After 1947, the process of normalisation was restored and in a very short period, the cooperative movement again became a self-reliant movement. The entire countryside came under cooperative movement. The emergence of genuine cooperatives was greatly helped by complementary government policy in regard to important matters like pricing, procurement etc.

The comparison between Turkey and Japan leads DRG to conclude that "the differentiation has little to do with
presence or absence of government action. Government action was not responsible for the results in either case. It is the basic structure of the rural community that was responsible. Whereas in Japan, there have existed for centuries, strong homogeneous rural communities with an established tradition of cooperative communal work, most of the underdeveloped countries are characterized by an absence of such communities today and by the disorganization and disintegration of such traditions and practices relating to community feeling and work as might have existed in the past.

What he intends to convey is that if no such traditions exist the government should devise its policy in such a manner that citizens would gradually learn the lessons in cooperative way of living.

In the background of this survey, DRO reviews developments in India. In India too cooperative activity was established at the initiative of government. But it never became a movement. Official policy confined itself chiefly to the setting up of cooperatives. "The setting up of the cooperative societies and the appropriate legal provisions and agricultural structure were themselves treated as the ends of official policy." It did not become a movement because "an economic programme for the state was absent and policy measures which were essential as supports

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3   Ibid., pp. 29-30.
for the development of a cooperative movement in a poverty-
stricken and insecure rural economy were not forthcoming. 5

Indian development was distinguished from that in other
countries by its emphasis on credit alone. Though emphasis on
credit was valid up to a certain point, further extension of co-
operative idea was absolutely essential. But this would have
called for formulation of entire economic policy as such; the
government was not prepared for it. "A state or government
that was not in a position to take positive view regarding
requirements of policy in this sphere could not, in thought or
action, go effectively beyond the credit society unsupported by
government funds; and the attempt to create a credit structure
unrelated to other activities and requirements was bound to
fail." 6

The real beginnings in the cooperative movement started
only in 1954 when the Rural Credit Survey (RCS) Committee
adopted what may be called "an essentially cooperative approach". It had two distinguishing features, first the acceptance of
state initiative and state sponsorship and second, the integra-
tion of credit with sale and supply and processing. DRG being
an important member of the Committee must have exerted his
influence in adopting this view.

With the launching of planning era, DRG wanted to go a
step further beyond this. According to him, cooperation has a

5 Ibid., p. 31.
6 Ibid., p. 32.
special role to play in development planning. He observed that planning in developing country tends to become centralised planning. Though a firm believer in planning, he was totally opposed to centralised planning. He felt that centralised planning can be avoided if there is a network of cooperative organisations spread over the country. "... the cooperative economy will be able to modify the operation of a centralised plan, exactly in those respects in which centralised planning is supposed to be most defective i.e. in respect of dispersal of authority and in respect of the ability to take account of local circumstances. These are the two important aspects in which centralised planning is usually blamed." Planning as conceived by DRG is a two-way process. "It is a process which takes note of local circumstances, local possibilities and local capacities and takes note also of the overall possibilities of the economy and overall objectives of the economy. This two-way process of conveying overall aims to the locality and conveying local knowledge, knowledge of local possibilities to the centre is significantly possible in an integrated manner only in the cooperative order."°

In the context of this DRG clarifies the role of the State in a very clear terms. "It is that the political authority, which in the modern state is overwhelmingly important, considers its function mainly that of maintaining the basic legalistic

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7 Ibid., p. 153.
8 Ibid., p. 154.
structures and incorporating the accepted values and philosophy of the people into broad economic policy decisions and regulatory systems and then to leave the economic order as largely an autonomous order.\textsuperscript{9}

Thus the responsibility of the government is very delicate. It has to raise the cooperative structure, and make it self-reliant. "The tests that we formulate regarding progress in cooperation and rural reconstruction are whether the cooperative and other structures that are raised, function widely and successfully and whether they promise to lead to the permanent establishment of a growingly self-reliant cooperative structure and above all strong primary societies."\textsuperscript{10}

To attain this objective two things are necessary. First, strong, well-coordinated official complementary action and second, emergence of cooperative leadership which will increase the inner strength of cooperatives, particularly the primaries.

Thus the responsibility on government is really very great and of a delicate nature. The views of DRC can be summarized briefly as follows:

(1) The cooperatives should help formulation and implementation of plans and thus make good the deficiency of centralized planning.

(2) But since cooperatives would not emerge on their own,

\textsuperscript{9} Ibid., p. 154.
\textsuperscript{10} Ibid., p. 40.
the State should take initiative and sponsor them.

(3) While doing this, the government has to strike a very delicate balance. It has to use its authority but the ultimate objective is to create self-reliant, autonomous cooperatives. This is dependent on (a) overall policy-frame of the government, and (b) inner strength of cooperatives, emergence of local leadership. While there is a total lack of the former, there are hopeful signs regarding the latter.

We will examine this view in greater details in the following pages.

2. Why State Sponsorship?

There seems to be a substantial agreement that State sponsorship is necessary in the developing countries. It is assumed that there is no prospect of voluntary, spontaneous action on the part of the people. This is due to several factors such as ignorance, extreme poverty, social stratification, impact of long colonial-feudal economy etc. Campbell writes, "... development and education are at primitive stage (in many underdeveloped countries). There is an enormous amount which needs to be done and the resources available with which to do it are far from adequate. If all improvements are to await direct government action, progress is likely to be lamentably slow. The inhabitants tend to be resigned and apathetic, mistrustful of their own abilities, disinclined to exert themselves and apt to assume that the initiation of all action is the business of government. Where such a state of affairs exists,
no government can afford to neglect at least to attempt to foster cooperation, and thereby to bring into action organised bodies actively working for improvements which government itself is anxious to effect, but without such unofficial cooperation could only do so after the lapse of intolerably long time. Herein lies one justification for governments going beyond their bare legal obligations and actively taking a hand in fostering cooperation. 11

However, it may be argued that situation in many Western European countries, where the cooperation movement was not started by government, was equally bad. The poor were oppressed and exploited to a very great extent. There was not only no protection from the government, but in Germany and other European countries, the government opposed at first the cooperative movement. The trader-industrialist class tried to suppress the movement with the help of government. It is, therefore, not an adequate argument that in the backward countries, since the conditions were very precarious, government alone has to initiate the cooperative movement.

Prof. Gadgil further argues that since local resources are grossly inadequate, government has to subscribe heavily. Agriculture is insecure and is in the grip of moneylender-trader. The small-sized village further represents inadequacy of resources in an extreme form. "In the circumstances to talk of

depending on internal resources from the beginning is tantamount to condemning, as in the past, all the poorer and money-lender-dominated areas to permanent stagnation. 12

This argument, too, is valid upto a point. It is true that internal resources are extremely meagre. The exploitation by money-lender-trader class left the agriculturists high and dry. But the situation was more or less similar in England and other countries at the time the first cooperatives emerged. The pioneers, however, could succeed in impressing upon the poor producers the importance and need of saving something even from their low incomes. Stories of extremely poor people saving very small amounts in order to become self-dependent are not few. For example, in one conference, after some participants had expressed doubts about savings campaigns in their districts, one participant told of an experiment in one of the poorest regions. "The rich planters there had produced only enough rice to meet their private needs. A cooperative society was established with a modest government loan and the planters were invited to become members. Their only initial obligation was to set aside, in a small sack provided by the society, one spoonful of rice per member of the family at each meal. The society collected the sacks at regular intervals and credited the members for the quantity and quality of rice in each sack. After a time, a small tool or implement was sent back to each member along with the empty sack and the explanation was that

12 Writings and Speeches of Professor D.R. Gadgil on Cooperation, op.cit., p. 36.
this was equivalent to part of the credit in their accounts. The practice was quickly and easily understood, and not only demonstrated the value of savings but also stimulated production. The planters learned to understand the supply and market functions of a cooperative. Later, they were supplied with fertilizers, insecticides and other valuable commodities and taught how to use them and improve their general level of production. In less than three years, the cooperative grew into a well-functioning, multipurpose society that had begun to amortize the initial government loan.\(^1\)

We thus do not get an adequate answer to the question why governments in backward countries like India should bear the responsibility of initiating and sponsoring cooperative movement instead of leaving it to local initiative and leadership. Perhaps a better understanding would be obtained if we see the difference in the situation in which cooperative movement emerged in the Western countries and the situation prevailing in the backward countries today. In Western countries, cooperative movement sprang up spontaneously in order to check the evil consequences of early capitalism. In those days the role of the State was that of the "Night Watchman". The government was not supposed to be responsible either for ensuring economic betterment or for controlling the consequences of economic crisis. The government was passive, responsible only for law

\(^1\) Konrad Engelman, *Building Cooperative Movements in Developing Countries: The Sociological and Psychological Aspects*, 1968, p. 32.
and order and for protection from foreign aggression. Cooperative movement therefore was not expected to receive any support from the government. Gradually the concept of Welfare State came to be accepted. From the position of a passive onlooker the government moved to the position of a responsible guardian. The cooperative movement, which had taken firm roots by that time, now received attention of the government and government found it useful in the interest of enhancing welfare of the poor and neglected. To regulate the economic development on the one hand and support voluntary efforts of the citizens to protect their own interest on the other, became the generally accepted policy of governments in advanced countries. In any case, it will be noticed, that by and large, the governments in advanced countries never faced the problem of starting the process of development. Government became active and assumed responsibility at a time when economic development was already at an advanced stage. Cooperative movement, therefore, was never looked upon as an instrument of economic development.

The situation is different in the backward countries. The problem here is, as stated earlier, the problem of starting the development process and speeding up as rapidly as possible. In this task they cannot afford to sit idle and wait for the progress to occur. They cannot leave matters to chance. With the existence of affluent countries in the neighbourhood and with the arousal of desire in the minds of people in backward economies to have similar progress, here and now, the governments are goaded into making comprehensive plans for development.
The task is stupendous and in this task participation of masses is very essential. One of the ways to secure this participation is to organize them suitably. Cooperatives are found convenient for this purpose. Government cannot wait for spontaneous growth of such organizations. This situation explains, at least to a considerable extent, why government should initiate and sponsor cooperative movement.

But this peculiar context also raises other questions, which have not received adequate attention. The questions are: Is there any conflict between planning and cooperative movement? Can cooperatives be subjected to rigours of a planned economy? Dealing with these questions one finds that while there is no inherent conflict between planning and cooperatives, the goals and nature of planning and the way plans are implemented may affect some of the basic characteristics of cooperative movement. For example, if the plan emphasises increasing agricultural production and marketable surplus immediately, the efforts of government are likely to be directed to those areas and to those holdings where quick rewards are realisable. Certain small areas and certain sections of farmers' community are likely to be benefited more than the rest of the area or farmers. Those who are in more urgent need may be ignored just because for the fulfilment of plan targets they are not so useful. Small and marginal farmers and farmers in the unfavourable natural conditions, would not receive attention they need. If cooperatives are supposed to be organizations for the betterment of the
weak, it is this section which should be assisted more for organizing themselves in cooperatives. The small and marginal farmers need cooperatives not only for credit and marketing purposes but also, and perhaps more urgently, for pooling together their land resources for economic cultivation. The point is that different approaches are necessary to meet problems of different types of farmers.

Outside agriculture, there are different kinds of development problems which need to be taken into account before government decides to sponsor cooperative movement. As is well known the industrial scene in India is marked by the presence of numerous small and household industries. Cooperative organisations may be necessary for their survival and development. But just a formal sponsorship is not enough; if the government seriously wants to promote the growth of this sector and feels that cooperative organisations can serve as an effective instrument for this purpose, the policy regarding cooperatives in this field will have to be framed so as to enable them to steer through all difficulties; in this connection one of the important difficulties the small producers may have to face is the competition coming from modern large plants. The policy regarding cooperativization of producers thus will have to be framed in the total context of industrial development problems.

The government again, has to be careful that its sponsorship and assistance does not cripple the free, spontaneous growth of cooperatives; nor are they converted into its instruments to
serve its narrow political ends. Once the government is accustomed to use cooperatives as instruments, the objective of developing them as ends in themselves is likely to be lost sight of. While the government is obsessed with target fulfilments, cooperatives are by nature slow in moving. Inevitably, therefore, they are forced to make progress at a rate at which they are not used to. In the process, cooperatives do not develop as self-dependent organizations; they tend to become arms of government.

This is more or less the universal experience, in all countries, where government has accepted the responsibility of initiating development process. Even in socialist countries, where the ideology is relatively more clearly formulated, in practice cooperatives are treated no more than instruments of the state. It may be interesting to note here the views of Lenin on cooperation. He was of the view that after the revolution is successfully carried out, the only task that is left is to organize the population in cooperative societies. When the society is thus organized, socialism automatically follows. The revolution destroys feudalism and inequalities of all kinds and establishes the rule of the proletariat. But this is only a step towards socialism. Socialism follows only after the proletariat organize themselves into self-reliant, autonomous cooperatives. He raises the question: "As a matter

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of fact, the power of the state over all large-scale means of production, the power of the state in the hands of the proletariat, the alliance of this proletariat with the many millions of small and very small peasants, the assured leadership of the peasantry by the proletariat etc., is not this all that is necessary in order to build a complete socialist society from the cooperatives, from the cooperatives alone, which we formerly treated huckstering and which from a certain aspect we have the right to treat as such now under NEP? Is this not all that is necessary for the purpose of building a complete socialist society?\(^{15}\) He reprimanded his colleagues for underrating cooperation. He contended that it is one thing to draw up fantastic plans for building socialism by means of all kinds of workers' associations but it is quite another thing to learn to build it practically in such a way that every small peasant may take part in the work of construction. This was the only way to create a new society and 'the only thing' that needed was 'to make our people so 'civilised' as to understand all the advantages of having them take part in cooperatives. This 'only thing' includes education of masses. The aim of education is to make them 'cultured merchants'. Once this is accomplished socialist order emerges automatically. Socialism cannot be imposed from above. In the context of this thought he defines socialism as follows: "A system of civilized cooperators under the social ownership of the means of production, with the class

\(^{15}\) Ibid., p. 207.
victory of the proletariat over the bourgeoisie, is socialism. 

DRG seems to think on similar lines. He too wants drastic state action towards the creation of an egalitarian society and action to develop basic industries in the public sector. And then in the broad socialistic framework of plan, he wants "to leave the economic order as largely as autonomous order".

But this does not happen. Cooperatives do not remain cooperatives in the real sense. They become instruments in the hands of government. This happened in Russia. This happened in India too. Too much of government dominance made cooperatives less effective as organisations suffused with cooperative spirit. Among the factors responsible for this state of affairs, important are: first, planned development put on cooperatives the onus of developing at a rate much faster than what normally they would be able to keep; second, unwillingness of bureaucracy to deofficialise; third, unwillingness of the state to de-politicise.

In India, DRG puts the blame for failure on government policy. According to him government followed essentially a policy of laissez faire, regulated only in the interest of big business. He, however, did not realize that even in a socialist state, cooperatives do not develop in the manner in which they ideally should develop. In a socialist state, where ownership and distribution are in the hands of the state, cooperation is opposed to state ownership and also to regulation beyond a

16 Ibid., p. 209.
certain limit. Like capitalism, cooperation believes that expansion of business function of the state, creates an instrument which in the end would destroy cooperatives or would allow them to exist only as an arm of the state and under its control as in Russia or Fascist Spain.

3. **A Critical Review of Cooperative Legislation in India**

Prof. Gadgil states that "the greatest obstacle in the way of progress of cooperation in India is the situation in relation to direction of cooperative policy at the centre. This is high-handed and perverse and is at the same time weak and vacillating."\(^\text{17}\) Ignoring local leadership, decisions "oracularly stated or hastily formulated and imposed from above, disregard for active, vigorous, diversified experimentation etc. ", these are the outstanding features of government policy. This attitude is revealed in their day-to-day policy decisions in entire economic field and also in the amendments made in the cooperative legislation.

As regards the first, DRC points out that whenever any important decision is taken, its relation to the ultimate objective did not receive adequate attention. For example, policy decisions regarding marketing have direct impact on cooperative movement. If the goal is to take away trade from private hands and hand it over to cooperatives, all decisions in this field

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17 *Writings and Speeches of Professor D.R. Gadgil on Cooperation*, op.cit., p. 43.
have to be influenced by this single consideration. Since this
is not done, "marketing is still in the hands of private trade
even in regulated markets". A total lack of complementary
policy is seen by DRG as an important obstacle. It follows that
cooperative movement will not prosper in isolation; its growth
and prosperity depends on total policy-frame of the government.
In 1965, Mirdha Committee18 too concluded that ailments of co-
operation could not be considered in isolation, but in the
context of the socio-economic and political environments. The
Committee came to the conclusion that it is the total atmosphere
in the society that is more important and unless government
takes effective action to alter this total context, cooperation
in India will not be cooperation in a real sense. Since this
aspect has been considered we will not go into its details here.

A review of cooperative legislation is another source
which throws some light on attitude of government towards co-
operation. In the recent past a large number of amendments have
been passed to the cooperative legislation, all of which aim at
concentrating power in the hands of government. Briefly the
government took to itself powers to (a) direct amendments of
byelaws, (b) direct amalgamation of societies, (c) provide for
nominations on boards of management, (d) veto, suspend and annul
decisions taken by cooperatives, (e) issue directives in general
and (f) place restrictions on holding of offices in cooperative
societies.

18 Report of the Committee on Cooperation (Chairman: K. N.
Mirdha), 1965.
Many of these powers are justified up to a point. In fact many of these were recommended by RCSG and even by International Cooperative Alliance (ICA). But the actual provisions in the law went far ahead the limits implied in the recommendations themselves. In each and every matter, there is found to be a wide gap between the recommendation and the actual legal provision. For example, RCSG recommended creation of larger societies through amalgamation, wherever necessary, but it did not recommend compulsion. Again provision for nomination is justified up to a point. ICA recognized the need for nomination on the ground that substantial government funds are needed for the development of cooperatives in the newly liberated countries and if such assistance is provided, government can legitimately insist on checking the use which is made of public money. Government can, therefore, ask that its representative shall sit on the boards, "not with a power of veto, but to make sure that the aid provided is being utilized in the way in which it was originally intended". 19 It is important to note the implication that this element of nomination should not be stretched to such an extent as to completely negative the spirit of democratic management all together. The objective of ensuring the safety of public funds can be served by even one responsible government officer. But in practice in most of the States, taking advantage of this recommendation, governments have taken

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to themselves sweeping powers. The number of nominees is
related to the extent of government contribution in general in
all States. In certain cases, the Registrar is empowered to
nominate the entire Board of Management, if the byelaws so
provide. 20 While recognizing the need for government supervi-
sion through their nominees, the ICA clearly stated that "the
primary and dominant purpose of a cooperative society is to
protect the interest of its membership. What the members'
interests are in a given situation only they can finally deter-
mine. A cooperative, therefore, will not in the long run work
well and prosper without agreed and efficient methods of
consulting the members as a body and enabling them to express
their wishes. Moreover, since it is the members who bring a
cooperative into existence, and whose constant adhesion and
support keep it alive, those who administer its affairs and in
particular conduct its day-to-day business, must be chosen
directly or indirectly by the members and enjoy their confidence.
It follows further that the administrators and managers are
accountable to the members for their stewardship, report
regularly in a business-like manner as their activities and
submit the results to the members' judgement. If the members
are not satisfied, they have the authority and the power to

20 For details see: R.V. Nadkarni, N.M. Balsare. Study of
Recent Changes in Cooperative Laws in India and Their Signifi-
cance for the Democratic Management of Cooperatives (Mimeo-
graphed). Poona : Vaikunth Mehta National Institute of
Cooperative Management.
criticise, to object and in extreme cases, to dismiss and replace their officers and officials. Disregarding this, the amendments in the cooperative legislation have resulted in suppressing the democratic character. In practice, the situation is worse. The Committee on Cooperation (1965) reports that the nominees of government did not find any time to participate meaningfully in the working of cooperatives. Consequently their interference - sporadic, inconsistent and without any systematic thinking and consideration - has been much more damaging. Moreover, it has been pointed out that this power has been used by a number of State governments for either favouring their political supporters with positions or even for the purpose of securing control over the management of cooperatives for promoting their political ends. It is because of this experience that the Conference of the Registrars of Cooperatives in Delhi in 1970 had resolved that the power of nomination to board of directors of cooperatives should be exercised with due caution and in accordance with pre-determined principle.

RCSC recommended that the government should, on certain specified matters, have overriding power i.e. power to reverse or modify decisions or to impose its own decision. In many States, however, it is stipulated that if there is a difference


of opinion between the nominee and other members, government
should use veto (Andhra Pradesh, Punjab).

Thus it will be seen that in practice the government has
a tendency to dominate cooperatives to the point at which it
becomes impossible to make cooperatives, autonomous democratic
institutions. It is necessary to recall to the mind the
original objectives of State sponsorship and assistance; it
was only to enable cooperatives to steer through the initial
obstacles that State initiative was advocated. The ultimate
objective was to enlist their support as partners in development
and not as arms of government. The concept of partnership
implies a dialogue between planners and cooperators; the former
putting forth views regarding the general objectives of growth
and the latter helping to prepare concrete schemes after taking
into account the social and economic realities at the local
level.

A study of these amendments reveals that most of them
were not only unnecessary but positively harmful. Nadkarni and
Belsare conclude from their study that "While cooperative
managements cannot anywhere claim absolute autonomy and have
to submit themselves to some measure of external control like
audit and inspection and some powers to any external authority
would be necessary to punish mischievous, recalcitrant manage-
ments, a number of measures introduced in the cooperative law
in many states amount to a complete denial of autonomy". 23

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They raise a further important question. "Presuming for a moment that practical results towards furthering the well-being of the community are considered more important and adherence to the principles of cooperative organizations, which is after all only a means to an end, is regarded as being of subsidiary importance, the question that arises is whether all the powers vested in the government are capable of being used in the right way and even if so used can bring about the desired results?" The doubt is raised because the experience tells that powers have been used not in the right way. An instance cited above is illustrative from this point of view. Recently many such instances have been pointed out. The Datey Study Team (on Cooperative Overdues), for example, makes a categorical statement that in certain cases State governments did not exercise power where they ought to have used and did the reverse in others according to political expediency. In regard to recovery in certain cases, even the ordinary powers were not used by a number of State governments. The Committee observed "while we would, therefore, hesitate to question the sincerity and earnestness of the state governments in this regard, we are unable to appreciate certain moves made at least by some of the state governments who have largely spoilt the overall climate for repayment and have positively contributed to the growing defaults under cooperative dues".

24 Ibid., p. 69.
4. **Leadership and Training**

Cooperatives depend not only on government action and policy but also on local leadership and the inner strength of the cooperatives. Prof. Gadgil is aware of this fact and seems to regard both as of equal importance. This is a view which is generally shared by thinkers. Government sponsorship and assistance must ultimately become of secondary importance, if not redundant. Members and leaders of cooperatives ultimately must learn to run the cooperative according to the principles of cooperation. "Ultimately autonomy has to be derived from its own internal strength and not from the benevolent attitude or the concessions of the state. An enlightened state, conscious of the significant role of cooperation in economic development of backward countries as well as the need to preserve the essential character of cooperative organizations and the cooperative societies determined to build themselves up as business organizations with internal resources and strength of manpower and material, would alone be able to eventually establish a proper balance between state assistance and the autonomy of the cooperative movement." 26

There are, however, numerous obstacles in the growth of leadership. While to a certain extent difficulties in this regard are common to all backward economies and were also similar to those faced by the advanced countries at a time when

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cooperative movement emerged in these countries, there are special and perhaps more formidable difficulties present in the Indian context. Among the universally experienced difficulties may be included extreme poverty, moneylender-trader system, lack of education and the general resigned and helpless attitude of masses. To these are added problems arising out of peculiar social and economic stratification. The population is divided between different religious groups and each group is further divided into watertight sub-groups. Caste is the dominant social factor in Hindu society. The urban-rural gap is extremely wide in India. It is held by many that urban economy has been exploiting rural economy. The rural people, and in particular the rural poor with long experience of oppression, exploitation or at best of neglect or indifference of urban and the advanced castes and classes towards them, have been left in a state of perpetual stagnation. The administrators and professionals come from specific class, even now and this class is totally isolated from rural masses; so also the trading class. Further there is intensive cohesiveness among members of each of this class and caste. Loyalty to caste and suspicion about anybody outside the group, result in a non-homogeneous group. Members in a cooperative tend to back leaders from their own caste or community without reference to the quality of these leaders in relation to the work of the cooperative. Hierarchical structure is again a further hampering factor. Caste groups are ranked in the old social order and ideas about this still persist. Higher positions like those of chairman, manager, members of
executive etc. may come to be expected as matter of traditional social right by members of the higher ranking groups and families and holders of hereditary offices. All this is against cooperative principles where equality is assumed irrespective of community or class.

This is a depressing account. What is the way out? The concept of a 'natural' leader is not of much use. Because 'natural' leaders may tend to identify with traditional leaders whose leadership is ultimately associated with the hierarchical and hereditary aspects of the old social structure. The traditional leaders, if they are to become true leaders must have to adopt broader perspective. They must understand the goal of social transformation clearly and must sincerely strive for it. They must display resourcefulness and imagination for devising a strategy for attainment of these goals.

Cooperatives are essentially the organisations for the betterment of weak, but DRG contends that there is no possibility of leadership to emerge from the poor and socially oppressed classes. Leadership therefore must come from outside these classes. He contends that "even a partial improvement of the condition of some among the older poor and backward groups could make for a significant widening of the field from which leadership could emerge". A beginning in this direction would come, according to DRG, if leaders come forth from among

27 Writings and Speeches of Professor D.R. Gadgil on Cooperation, op.cit., p. 94.
the better-off peasants and artisans; i.e. it should not remain confined to urban sector, as it is at present (he wrote this in 1960). Change of leadership from urban to "better-off peasants and artisans" from the rural area is deemed as a breakthrough by DRS. It is important because "in the first instance, they would not labour under the disadvantage of caste differentiation. Secondly, in the prevailing atmosphere of insistence on progress towards a socialist society and the rising importance of mass vote in politics, leaders from among them, the richer strata of peasants etc., are likely to realise the need of functioning so as to achieve the broader objective."

Thus through very incisive analysis of the situation in India, DRS comes to conclusion, which is somewhat controversial. It is true that weaker sections will not be able to produce leaders from among themselves. But there is no reason why leaders "from better-off peasants and artisans" would be better than and preferable to "leaders from urban classes". The weaker sections - economically and socially - are not able to produce leaders from among themselves for the simple reason that they are extremely poor and that they are dependent on better-off peasants for the meagre income they get by working on their farms. Employment and income are both uncertain. They remain, therefore, subjugated. The age-old abject poverty

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28 Ibid., p. 94.
and servility have also bred inferiority complex among them. BRG is therefore right when he contends that leadership for this class must come from outside.

Since independence, the pattern of leadership in India has undergone substantial change. Particularly when the decision to accept a decentralized pattern was taken, in the rural area, new leadership has emerged. It was mostly from the class of 'better-off peasants'. However, by and large, the new leadership did not strive for the betterment of weaker section. They could occupy important positions in all fields, including the cooperative sector, but, by and large, the weaker section did not derive any benefit. It is now an established fact that the masses who have the right to vote do not sufficiently build up pressure in order to compel their leaders to devise and implement schemes for their welfare. On the contrary the new leadership has tended to consolidate its position and secure maximum benefit to themselves. The weaker sections, being gullible, illiterate and also to a certain extent hopeful that some benefits would flow to them sooner or later have continued to support them. No doubt there are exceptions where we find the new leaders striving for the mobilization and betterment of weaker sections. But these are too few to produce any impact. Very few have social consciousness and are inspired by the ideology of socialism.

On the other hand, leaders from urban centres and from highest castes and income-groups have provided better leadership
for rural weaker sections. There are instances - though not large in number - where we find younger people from urban centres have succeeded in mobilising weaker sections effectively. It is also seen that such attempts were resisted by leaders coming from classes of 'better-off peasants'. The recent experience, though on a limited scale, shows that tribals, agricultural labourers, scheduled caste members etc. have been led successfully out of their predicament more by leaders coming from urban centres than by leaders from better-off peasants.

The real question is thus: Whether there are persons who are prepared to make some sacrifice and lead the masses belonging to weaker sections out of their present predicament? What counts is the fact whether the leaders have adequate ideological grounding or not.

Cooperative education and training is another aspect which has to be considered in this connection. Even if local leaders come up they need proper training and education. Training here should not be understood in a narrow and formal or technical sense. Imparting knowledge regarding technical and legal provisions is one thing and educating the leaders in cooperative principles and the place of cooperation in human life and social order is another. The latter aspect was neglected in India till recently and even today it has not received its due attention. As DRC stated, "In India training became an activity related to the running of societies and the supervision of the network of these societies by official staff".
But if the objective is to establish cooperative commonwealth, education must not be conceived in such narrow terms. The target group for cooperative education, in the proper sense, is the membership of cooperatives and also the general public. Members of cooperatives must understand the cooperative values and must be educated to practise them in their day-to-day business of life. DRC makes two important points while dealing with this aspect: first, he emphasizes the need to think of the contents of the educational programme in the context of our special requirements, and second, he argues that the educational programme thus formulated should be undertaken, as far as possible, by the cooperative organizations themselves and carried out in the context of their actual operations.

Let us deal with these two aspects.

In the educational programme we should obviously include cooperative principles; but the Indian context requires that education of the members should be oriented to social objectives in particular and we should indicate and persuade the members to follow a typical pattern of behaviour expected in this context while laying this emphasis. The problem of weaker sections seemed to be uppermost in the mind of DRC. He thinks that it is the responsibility of cooperatives themselves to look after the interest of the weaker sections. This emphasis is very proper. Ultimately people themselves must undertake the task of uplifting the socially and economically weak.
Government can give directions, prepare legal frame and take all the necessary policy-decisions but ultimately only the local leaders and social workers can bring about this social reform. To hold cooperators responsible for this is, therefore, very proper. In the Draft Fourth Plan too, DRG consistently takes this stand. It states that cooperative organization has "at least two important aspects; first is that of functioning as democratic organizations and the second, that of specially attending to the needs of the weaker among their members". If the primary cooperative organizations fail in this regard, the federal units should take steps to ensure it. Failing this, the government should intervene; but this is undesirable because it amounts to confessing that cooperative movement is not capable of working as an instrument of social transformation.

While one tends to agree with this line of thought, it is essential to remember that cooperatives alone would not succeed in the task of improving the conditions of weaker section even if they sincerely strive for it. This is because the problems of weaker section require special approach and organizational effort. DRG seems to ignore this fact. Take for example, the work of primary cooperative credit society. The main objective of a primary society is to distribute credit to the members. The rules regarding distribution are prepared by higher authorities, who are greatly influenced by government

authorities. The cooperative organizations may follow the
prescribed procedure, faithfully, and all the members may be
treated alike irrespective of caste and community, size of
land holdings etc. But the requirements of small and marginal
farmers are not the same as those of relatively larger farmers.
They may require credit on easy terms, for a longer duration
and perhaps some more incentives and facilities to improve
their agricultural business. If new agricultural technology is
to be adopted they may need crop insurance, cheaper supplies
and some more organisational assistance. The cooperative
organizations, of which they are members, may be unable to
provide these. Consequently, weaker members may not be able
to make progress along with stronger members with the help of
the same cooperative organisation. It is the well known
experience that in India small and marginal farmers did not
derive much benefit from the cooperative organisation. Partic-
ularly it was found that this weaker class of farmers could
not make much progress in adopting new technology. It was not
necessarily the fault of leaders of cooperative organization.
It was the lack of understanding regarding the problems of
small and marginal farmers. The realisation of this led to the
preparation of special schemes and organisations such as SFDA,
MFALDA, etc.

DRC refers to the problem of sustaining the interest of
members in the cooperative organisation and urges that educa-
tional programme should consider this aspect. Members weigh
the advantages and disadvantages while operating through their
cooperative organization. If cooperative is not found advantageous, they bypass it and operate directly in the market. For example, as DRC himself points out, the commission agent may in particular instance offer easier terms and higher prices; a commercial bank may offer softer loans; in a particular year, making gur instead of selling sugarcane to the cooperative factory may appear advantageous. What is the member expected to do in such situations? Should he remain loyal to the cooperative at any cost and ignore better prospects? DRC seems to be affirmative in this regard. Because he feels that the advantages of ignoring cooperatives, though real in certain situations, are temporary and in the long run may prove to be deceptive. He therefore pleads that members should be educated to see their long-term interest in remaining loyal to the cooperative organization. The direction of educative effort should be "to point to the long-run effects of the absence of the cooperative group and organisation. It has to emphasise the totality of gains in transactions with a society over a number of years as against the terms and conditions of a specific type of bargain at a point of time." 30

That educational programme should attempt this is agreeable up to a point. But it is necessary to recognise the limits also. After all members come together and form a cooperative organization to serve certain individual purpose. For them cooperative is an instrument to enhance their own interest. If

30 Ibid., p. 178.
the situation changes, they may find it advantageous to operate independently. It is necessary to remember that cooperative movement was born to counter the evil consequences of early capitalism. With the emergence of welfare state and with the acceptance of regulatory frame by the government in the economic field, environments changed very substantially. The need to stick on together is greatly undermined because of these changes. This is true not only in advanced countries but even in a developing country like India.

Take, for example, the consumers' cooperative organisations. So long as it is economical to buy through the consumer cooperatives, members would do so. But circumstances may change. If the harvest is good and arrivals in the market are plenty, purchasing directly in the market may be cheaper. This happens quite frequently. The goods delivered by consumers' cooperatives may be costly or of low quality. Apart from this, there may be delays and inefficiency. In times of scarcity or when traders hold up stock, consumers' societies are a great help. But this is not always the situation. In such cases, education alone is not enough to persuade the members to stick together. Secondly, the rise in the average incomes and standard of living may change attitudes of members. 'In an affluent society, when sheer necessity no longer obliges people to stick together, group consciousness gives way to more egotistical considerations. Besides, economic and social progress contributes to the increased isolation of individuals
and the area of community feeling and joint action will be perceptibly narrower. "31

What is true of consumers is more or less true of producers also.

DCG makes another point in regard to education, viz., that the educational programme of members should be carried out by cooperatives themselves in the context of their actual operations. It is not difficult to appreciate this point. Members can learn about the cooperative way of life, from leaders of their organisations, and in the context of the day-to-day operations of their and other cooperatives. However, if the objective is to create a new social and economic order, cooperative education has to be broad-based. Perhaps the entire educational programme in the society will have to be reoriented so that ordinary citizens, whether he is a member or not of any cooperative, will imbibe the values, cooperation stands for.

CHAPTER XIII

CONCLUDING OBSERVATIONS

We are now in a position to take an overview of the entire discussion and make an attempt to understand Professor Gadgil's position as a thinker in the socio-economic milieu of India at this juncture.

I

Let us first recapitulate the important findings of the foregoing discussion.

We demarcated first the area of our study. Professor Gadgil was a prolific writer and since he was grappling to understand the total reality, hardly any subject could escape his attention. His main concern, however, was the development problem of a backward country like India and, therefore, quite naturally he paid relatively more attention to problems relating to agriculture and industry. Here, too, he selected a few aspects of each, which he thought, were relatively more important though neglected. In the present work, we decided to take up only these aspects for analysis. The subject of cooperation is of special importance. Prof. Gadgil was essentially a believer in a cooperative order. This is consistent with his views relating to agricultural and industrial problems. He desired India to avoid both laissez faire and a
system of centralized planning. His entire philosophy can best be summarized in his own words, when he discusses the role of government in a developing country. He states that the function of the political authority is to maintain the basic legalistic structure, incorporate the accepted values and philosophy of the people into broad economic policy decisions and regulatory system, and then "to leave the economic order as largely an autonomous order as possible" (see pp. 337-338 of the thesis). This sentence is the key to understanding Prof. Gadgil's thought. He stands for a model of mixed economy, in which the government would exert an overall control and lead the society to socialist goals accepted at the time when we launched the Second Five Year Plan. While regulating and directing the economy, he cautioned that the government should not dominate in a manner so as to leave no scope for the growth of individual initiative and entrepreneurship; it should uphold 'cooperative values' and strive tenaciously to bring them into reality.

Out of this basic philosophy, emerge his views relating to economic development. His attention is constantly focussed on the poor and weak and he advocates planning not only for their economic improvement from a humanitarian point of view but for making them active, vibrant participants in the management of public affairs.

In the field of agriculture we discussed three aspects viz. planning for agricultural development, reorganization of agricultural structure, and marketable surplus and stabilization.
As regards planning for agricultural development, Prof. Gadgil pointedly draws attention to the need of starting the process of planning from below. This view, as we noted, is not necessarily confined to agricultural planning but to planning in general. Prof. Gadgil took up this aspect for discussion mainly in the context of the agricultural problem and therefore we decided to discuss it in this section. Planning is a two-way process, according to Gadgil, and while we started this process at the national level, we failed to consider how it could be initiated at the lower levels. As a consequence regional plans, at all levels, turned out to be merely breakdown of national plans. Gadgil not only criticised this, but also tried to reverse this trend when he became the head of the Planning Commission by abolishing 'standard schemes' and persuading the State authorities to take steps for initiating the process of plan formulation at all levels. He had in fact attempted to show the way much earlier, by working out himself a plan for Wardha district. In continuation of this line of thinking, Gadgil recommends: (a) the concept of 'market area' as the lowest planning unit and (b) a planning organisation consisting of three elements viz. representatives of local self-government, cooperative organisations and official technical experts. Consideration of these ideas led us to realise their limitations. While 'market area' as the primary unit of planning has its merits, what appears essential in the context of Indian conditions, is the plan for building up a hierarchy of towns linking metropolitan cities
on the one hand and the smally tiny villages on the other. The work of Misra, etc. appears worth a serious consideration in this connection. The planning organization suggested by Prof. Gadgil appears to be suffering from important deficiencies; particularly from the point of view of safeguarding and promoting the interests of the weaker section in our society. None of these elements can be relied upon for preparing development plans which would adequately take into consideration the promotion of welfare of the weaker sections. If rural development is defined, as we have done in Chapter II, in terms of improving the conditions of the poor and weak, entire reorganization of the economy at the grass-root level would be essential. This would become possible only if there is a pressure built up by mass movement of the poor and the exploited. While Gadgil shows maximum concern for this class, the organizational set up, he recommends, does not seem adequate enough from this point of view.

From the consideration of planning set-up of the lowest unit, Gadgil directly goes to the consideration of planning organization at the top level. Planning Commission, according to him, should be an advisory body, not even remotely connected with decision-making process. Its main functions should be (a) to formulate the plan, (b) prescribe policy-frame and (c) keep constant watch on the day-to-day developments and insistently forward recommendations to meet the problems which arise in the process of implementation. One can agree with this view; but logically it follows that the Planning Commission
should not hesitate in going to the public and exposing the
government if its advice is not heeded and consequently plan
is not faithfully implemented. In a desperate situation,
arising out of the failure of implementation of plan relating
to agriculture, Prof. Gadgil recommends suspension of activ-
ities of the Planning Commission in regard to agricultural
development and place them under the authority of Cabinet
Committee. This is inconsistent with his line of thinking
referred to above.

As regards reorganisation of agricultural structure
Gadgil, while approving the broad land reform programme,
specifically draws attention to one of the most neglected
aspect of it vis. reorganisation of small farms. It is
obvious that Gadgil essentially upholds peasant proprietorship.
He does not recommend nationalization of land or its equal
distribution. He recommends ceiling on land holding but
maintains that ceiling should not do harm to economic holding.
The basic problem, according to him, is to ensure a minimum
size of land holding and since the majority of farmers have
less than viable size of holding, he recommends forcefully
that government should pay more attention to consolidation
and cooperativisation of small and marginal farms. Here we see,
again, his anxiety to improve the conditions of the small and
the weak. Agricultural development does not mean, according
to him, increasing agricultural production merely at the aggre-
gate level; unless and until programme for improving agri-
cultural business of the small farmers is considered, plan
for agricultural development is meaningless. Failure of the
government to take into account this aspect invited severe
criticism from Gadgil. His own concept of consolidation and
cooperativization of small farms, as we have seen, implies
reorganization of the entire village land and village economy.
Such a programme cannot be carried out in the existing politi-
cal set-up. Gadgil optimistically turned to Bhooman and
Gramdan movement, hoping that it would engulf the whole nation
and bring about the desired reorganization of the village
economy. Gramdan movement, however, did not attain its
objectives; the political set up supported it only to the
extent to which it did no harm to the basic interests of big
farmers. It appears, that Gadgil expected too much from this
movement.

Gadgil was keen on attaining 'growth with stability'.
Stability, however, did not connote to him stagnation. He
thought that if marketable surplus is ensured at reasonably
stable prices, which would be remunerative enough to the
producer, economic growth would be attained 'with least disturb-
ance'. He therefore devotes special attention to agricultural
prices and procurement system. We find here that he changed
his stand gradually; initially he wanted government to
operate in the free market to get adequate supplies of agricul-
tural produce. In course of time he realized that competi-
tion with private traders is self-defeating and then came to
the conclusion that government must control food market
completely. In practice, he recommended compulsory levy in order to get adequate buffer stock. When he joined the Planning Commission, he tried to make special provision for maintaining buffer stock; he mentioned it as a special feature of the Fourth Plan and described it as "investment in stability". However, he did not appear keen on discussing what should be the size of the buffer stock in order to maintain stability; in fact, he appeared grumbling about the financial burden, it imposed.

Prof. Gadgil's views on industrialisation have taken shape from his major concern for the activisation of the rural economy. Rural industrialisation was his goal; it implied development of growth foci, where a complex of interrelated industries would grow; the scale of operation would be small, technology would be indigenously developed and would make maximum use of local resources, including human labour. In the attainment of this goal, he thought large modern industries - basic industries in the public sector and other important industries in the private sector - would be useful. Even monopoly capital, he thought, not undesirable if it is harnessed to realize the goal. In fact, monopoly industries, he thought, are not objectionable per se. He, thus, accepted the model, which is a mixed economy model, where modern industries, including monopolies in the private sector, would be allowed to grow. Little did he realize in the initial stages, that this model would operate mainly in the interest of the private
sector, which has little sympathy for rural industrialisation as Prof. Gadgil conceived it. When he realised this, he attacked the government in the most forthright manner. He alleged that the government was deliberately dodging the adoption of a proper policy-frame. But gradually he became disillusioned, he found that public sector units were not functioning properly and therefore he came to the conclusion that competitive economy may be better to a certain extent.

In his whole discussion on rural industrialisation, we find that he keeps himself at the abstract level. He makes little effort to find out whether the programme is feasible, technologically and economically; he also does not seem to consider what kind of organisation is necessary to carry out the programme and what should be the details of the policy-frame which is essential for channelising plan efforts towards the attainment of the goal of rural industrialisation. In regard to monopoly capital, he shifts his stand from extending the public sector to cover these units, to allow free competition among them. His disappointment with the public sector appears abrupt; nowhere in his published works he examines the working of these units and tries to find out the reasons for their unsuccessful operation. His conclusion that there is no point in extending the public sector further, comes as a little surprise.

Prof. Gadgil is known for his keenness on empirical work; but in regard to his discussion on industrialisation, we find
this base lacking. The deficiency appears conspicuous particularly in the context of the fact that he was heading a well-established research institute.

He very rightly emphasized the need for a policy-frame and made a diagnosis that it is the big alliance between the ruling authorities, top bureaucrats and big business, that is coming in the way of operating the mixed economy model in a manner agreed to in the plans. While there is a substantial element of truth in his views, what is expected of a social scientist, is a deeper analysis of the problem. While attacking the big alliance, it was necessary to work out the details of the policy-frame. Many committee reports, which were not influenced by big business, complained about inexperience in planning, lack of clarity on the part of administrators and difficulties inherent in the socio-economic situation. These do not seem to have attracted the attention of the intellectuals in the country. Again when Gadgil criticised 'big alliance' he did not make any serious attempt to suggest the way out. He prefers to remain satisfied with making general appeal to politicians and business world. He disapproves of the radical movements as those that took place in Communist China; at the same time he does not appear to realize that without a mass movement, the big alliance cannot be rendered ineffective and the road-blocks on the road to socialism cannot be removed.

As stated earlier, Prof. Gadgil stands for the establish-
ment of cooperative system. This is the subject which is discussed by him, relatively more systemically and also more completely. In the present work, we discussed this subject in three parts: his concept of a cooperative organization, his concept of cooperative commonwealth and the role of the State vis-a-vis cooperation. The three parts are interlinked. According to Gadgil, a cooperative is essentially an organisation based on the principle of mutuality and working to improve the economic activity of the weak. While this view is basically correct, it is necessary to bear in mind that the concept of the weak is relative and organisations formed by not so weak for the furtherance of their economic interests, may also be regarded as cooperatives provided they are suffused with cooperative spirit. Again, if cooperative is essentially an organization of the weak, the question remains why Prof. Gadgil approves of the cooperatives in Indian villages, where we find both big land holders and marginal farmers work as equal participants? Prof. Gadgil asserts summarily that a cooperative organization is not a firm. He does not refer to the controversy in this regard. As an academician such an assertion without an attempt to elaborate it, appear unjustified. One can agree with Prof. Gadgil if he implies that cooperation should be a way of organizing life in a developing country and that this is a superior way to either laissez faire or centralized planning.

This naturally takes us to the consideration as to what we mean by the cooperative system or cooperative commonwealth.
The question becomes important, because, as Prof. Gadgil rightly states, there are serious limits to covering of the entire field of economic activities by a network of cooperatives. Gadgil, therefore, argues that cooperative commonwealth can be said to have come into existence, if cooperative values are accepted in the entire economy. The cooperative values include the values relating to (a) small scale and dispersal (b) incentives (c) control and (d) democracy and equality. Why should these values be regarded as cooperative values? Prof. Gadgil does not raise this question. But it can be inferred from his writings that these are to be regarded as cooperative values because these stand opposed to the values promoted by the unbridled competitive order. One would certainly like these values accepted in the society. The difficulty, however, is that cooperative sector alone will not be in a position to spread these values. The values emerging from the competitive economy need to be controlled with the help of a proper policy-frame. Prof. Gadgil consistently argues for the adoption of such a policy frame. In the absence of a suitable policy-frame, cooperative values may remain neglected; in fact, cooperative sector may remain a very small and neglected sector, supported by the government only out of humanitarian consideration.

The role of the State therefore becomes of crucial importance. Gadgil's clear analysis and statements are of great importance in this connection. The role of the State, in brief, should be self-effacing. The government should
pursue the policy with a view to building up a network of cooperatives which would be autonomous, self-governing and suffused with cooperative spirit; as soon as this is done, it should withdraw. Government should build up cooperatives, as Gadgil states, both as ends and means. In practice, this is likely to be not realized. The ambitions of political leaders, responsibilities of initiating development, apathy on the part of ordinary citizens, these and many other factors would come in the way of realizing the dream of Prof. Gadgil.

II

Having reviewed Gadgil's thought in brief, we can now attempt an assessment of Prof. Gadgil as a thinker, in the context of the present times.

Prof. Gadgil was not a path-finder but has certainly made significant contributions towards understanding and solving certain Indian problems. Essentially, he represents a tradition of Indian thinkers who believed that the science of economics must be based on the analysis of existing situation of the society at a particular point of time and that theories developed in the abstract or based on limited experience somewhere, must be critically examined, in the context of a given socio-economic reality, before they are accepted.¹

¹ It may be noted here, that Prof. Gadgil held different views in this regard in the initial stages. He stated his views, when the debate was initiated by Dr. Ketkar in an article in his Marathi Encyclopaedia. In this article it was argued that there is a need to create and develop an independent
Eminent thinkers like Dadabhai Naoroji, G.V. Joshi, Ranade, Gokhale etc. built up this tradition. Therefore, when Prof. Gadgil vehemently criticised laissez faire doctrine and advocated regulation of economy, it was not entirely a new thought. However, Prof. Gadgil was one of the pioneers who took the discussion, a step further, by broadening the empirical base. He is one of the first few to add a new dimension to this discussion, by instituting new kinds of empirical studies and surveys. Turning his back on the lucrative and prestigious career in industry or in government, he decided to establish a research institute with the specific

science of economics based on the peculiar features of Indian society. Gadgil opposed this view and maintained that the science of economics, like any other natural science, exists independently of the peculiarities of any given socio-economic reality. He conceded that Indian society has its own peculiarities but argued that these do not warrant any attempt to work out an independent science of economics; he even warned that there is no point in exaggerating the differences Indian society had with the other ones. [D.R. Gadgil, "Is There a Need of Independent Science of Indian Economics?" (in Marathi) November 1924 included in Sulabha Brahme (ed.). Collection of Marathi Writings of D.R. Gadgil (in Marathi), Vol. I, Pune : Gokhale Institute of Politics and Economics, 1973, pp. 143-150.] Later however, he felt the need of revising his stand. In an article, published in 1942 [D.R. Gadgil, "Foundation of Indian Economics" (in Marathi) included in Sulabha Brahme (ed.) Ibid., pp. 163-171.] i.e. 18 years after the first was written, he frankly admitted that his earlier view was wrong. In this article, he maintained that theories and propositions, put forward by thinkers, are essentially based on their reflections and experiences of their immediate environment and developments. The environment and times in which we live, are vastly different from the European thinkers who first created the science of economics. It is therefore necessary, he concluded, that we Indians should work out theories based on our experiences and observations.
objective of promoting studies based on concrete facts and collecting data regarding socio-economic reality through new survey techniques. The earlier thinkers relied mainly on the data that was becoming available in the course of normal working of bureaucracy and other organisations. Prof. Gadgil also did this but he further laid down basis for collection of new kinds of data in a systematic way. This is a distinctive contribution of Prof. Gadgil.

Two of his earlier works can be cited by way of illustration; first, Regulation of Wages and second, Farm Business Survey in Wai taluka. In the first, he undertook examination of the alleged benefits of the free market economy, with the help of data relating to wages earned by workers in the textile industry, one of the most organised and important industries in those days. The laisses faire doctrine held that if there is a free competition among producers and perfect mobility on the part of the factors of production, including labour, wages tend to be equalised in the entire industry. Prof. Gadgil examined this claim and came to the conclusion that "the alleged merits of the free market economy do not and cannot exist in reality". This he found in spite of the fact that the labour market in India was 'perfect' from the point of view of the laisses faire doctrine; there was considerable divergence in the wage rates for the same kind of labour in the same industry. This, he claimed, was against the concept of 'fair wage' which, according
to him, implied equal wages as between persons exactly similar in quality.

The second work (Farm Business Survey) represents a different kind of study. In this work, Gadgil elaborated the survey technique suitable to Indian conditions. This is a significant contribution as it helped to clarify certain concepts and procedures. This study paved the way for future surveys.

While Gadgil can be credited with this pioneering contribution, it may be said that he did not continue the same on a significant scale. As commented earlier, many of his views and observations could have been based on fact-finding studies. The path to industrial development required studies of this kind but Gadgil did not devote his time and talents to this aspect.

Prof. Gadgil represents the tradition of thinkers mentioned earlier in another sense also. He shares with them a concern for the continuous impoverishment of rural India. Here, too, his contribution lies in clarifying concepts and influencing the development plans with a view to activating rural economy. The earlier thinkers had emphasized the need for planning for rural regeneration, but no systematic thought was put forward. Dadabhai Naoroji, for example, while developing his 'drain theory' commented on the internal situation in India; he stated that there are two Indias: the prosperous one of the towns and the poverty-stricken of the
villages. Many subsequent thinkers endorsed this view and pondered over the possible solution. Broadly the view prevailing those days upheld that "industrial development should be an aid or adjunct to a modernized rural sector, instead of rural development being, more or less an industrial by-product of either urban industrialism or capitalistic plantation agriculture. This was not merely a question of the relative importance of industry and agriculture. It was one of democratic and more equalitarian path of development—an alternative path that would be in harmony with Indian tradition and social values, of course, purged of their anachronistic distortions and contradictions." It will be obvious that Gadgil, too, upholds this line of thinking. He, too, is keen on finding an alternative path that would be in harmony with Indian traditions and social values, purged of their anachronistic distortions and contradictions. This, he thought possible. An alternative path exists, according to him, alternative to both capitalism and communism. He makes it clear in his writings. The model of mixed economy, incorporated in the Second Five Year Plan, constituted this alternative path. Gadgil welcomed this strategy as it fulfilled his conditions: (1) it aimed at removing barriers to rapid economic growth, (2) it implied planning for the common man especially, in the rural sector, (3) it was prone to

accept 'cooperative values', (4) it left sufficient scope for development of individual initiative and entrepreneurship, and finally (5) it promised to deliver goods in a democratic manner. Gadgil appeared hopeful that if this new alternative path is supported by the revival of some of the Indian traditions and values, we would be able to avoid the weaknesses and deficiencies of both capitalism and communism. In one of his articles Gadgil urges the consideration whether it is possible, at least partially, to use religious and ethical concepts, in order to regulate distribution of wealth and income; he pleads for the acceptance of the principle of non-violence propounded by Mahatma Gandhi in all fields of life. Thus, overall control of the government over the economy, together with the acceptance of these values and traditions, would have, according to Gadgil, been enough. Gadgil takes the discussion further by developing the concepts of intermediate technology and growth centres and stimulated thinking and experiments in regional planning.

Gadgil's disillusionment followed soon. He realised that in the model accepted in the plan, the overall control is exercised not by the government but by big business. He saw a big alliance, as mentioned earlier, between ruling authorities, top level administrators and businessmen. In a sense,

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this was obvious; but Gadgil did not seem to realize it at the beginning. As Ganguli states, "the compulsions of the objective situation were such as to inhibit even a non-Marxist kind of socialist orientation in India... When Nehru forged ahead with planned economic development, there was scope for conscientious objectors as well as vested interests to resist regulation beyond their limits of tolerance. These limits were wide enough so long as vested interests benefited by planning; but, in retrospect, it seems that it was easy to build up pressures in various ways when the vital interests of privileged classes were endangered. This was the objective situation."

Gadgil was not unaware of the dilemmas of democratic-socialist planning; but, it appears, he was hopeful that political process under the leadership of Mrs. Gandhi would again take the right direction. He joined the Planning Commission perhaps with this hope. His decision to join the Planning Commission and to continue till his unceremonious exit, is a matter of controversy. It is argued that he did not have a proper understanding of the political situation; he innocently believed, it is alleged, that the government led by Mrs. Gandhi is a government which was serious about regulating the economy so as to attain the goals already accepted. It is difficult to agree that a social scientist of the

stature of Gadgil was ignorant about the nature of the power structure, at a time when he joined the Planning Commission. But at the same time the question remains: why did he continue to stay in office, when it was clear that he was not able to persuade the government to adopt a policy-frame and regulatory measures for implementing even the modest plan prepared under his leadership? It will be recalled that Prof. Gadgil wanted the Planning Commission not only to prepare a five-year plan, but also to act as a watchdog to review developments from time to time and suggest measures to tide over the difficulties that come up during the process of implementation. Gadgil succeeded in preparing the plan; but he failed in preparing a policy-frame and making it acceptable to the government. There is no information to give us any idea as to what kind of correspondence he was having with the ruling authorities but it seems that he paid little attention to these functions of the Planning Commission. Even his close associates came to this conclusion. Consequently, the Fourth Plan, like the earlier ones, remained only an exercise in futility.

Prof. Kamat, one of his close associates, sums up the situation as follows:

"Gadgil's line of thinking, even when forced into a logical framework and shorn of its characteristic cautions and provisos, could not be called revolutionary. It manifested elements of moderate radicalism and to that insipient extent,
it was anti-imperialist (self-reliance), anti-feudal (land reforms, Bhudan), anti-monopoly (decentralisation, dispersal, small-scale industry) and egalitarian (curbs on incomes). It spoke of controls on the lines of a war economy (price control, procurement and distribution of essential commodities) and co-operative functioning in many areas of production and distribution. Thus although the proposed policy prescriptions and regulatory measures would not have been very far-reaching it will be deluding oneself to assume that the ruling circles who themselves represented, or were dependent on, the vested interests of the cities and the countryside could adopt them and to that extent hurt their own class interests. It is difficult to visualise administration of such policies even in small but effective doses in the absence of insistent pressure of a powerful mass movement. In the situation then (and also now) even such limited performance would be unthinkable except in the realm of populist slogans, never to be implemented."

One is inclined to agree with Kamat that in the absence of an insistent pressure of powerful mass movement, even a moderately socialist programme cannot be carried out. But what is a thinker like Prof. Gadgil supposed to do in this regard? As a leader of the planning team, he could have insisted on acceptance of a regulatory framework. From time to time he

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could have taken initiative in suggesting measures to see that the plan is not bypassed. In addition he could have discussed the issues in the public and inform the progressive elements in the society. And finally, he could have quit the office if it is found that the government was dilly-dallying in adopting the policy-frame regulatory measures recommended by the Planning Commission. There seems to be nothing wrong in Prof. Gadgil's decision to join the Planning Commission. He had hopes, like many other progressive intellectuals in the country. He joined the Planning Commission because he felt that it is the duty of intellectuals like him to help put the derailed planning machinery on the right tracks again. He succeeded in reorganizing the Planning Commission and producing the Fourth Plan. He stimulated discussion on the plan document all over the country. All this stands to his credit. But as time went on, it was becoming clear that he was not succeeding in compelling the government to adopt the regulatory framework. He did not succeed, it seems, in establishing regular communication with the ruling authorities. It is said that he was realizing that his presence was not very much liked by many members of the ruling organization. Those who knew Gadgil, expected that he would resign. Gadgil was a person known for his integrity, pride and confidence. He was the last man to seek any favours from any quarters. He was also known for his forthrightness. It was, therefore, natural if those who knew him closely, were surprised that he continued to stay in office even though it
was clear that he was not able to do anything for furtherance of his ideas about planning. But it is difficult to know really how the matters stood between him and the ruling authorities. As stated in the introduction, his sudden demise has snatched away from us an opportunity to get an insight into one of the crucial aspects of the planning process in India. Had he lived for some more years, he would have perhaps made a significant contribution towards our understanding of the problems of plan preparation and implementation in a developing country.
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