8

Deprivation of the Village

The results of neglect of, rather discrimination against, agriculture all these years are now evident to all students of Indian economy. Making a study[1] of the state of agriculture during the period of 14 years, 1960-74, Dr. V.K.R.V. Rao arrived at the conclusion that the rise in the net domestic product accruing to agriculture in terms of 1960-61 prices was only 22.2 per cent as against 52 per cent achieved for the national product as a whole, and that, as the rural population undoubtedly increased by more than this percentage during this period, viz. by 28.3 per cent, there was decline in the per capita rural net product accruing from agriculture, as against the rise that took place in the national per capita net product.

The estimated number of rural households with a per capita consumer expenditure of Rs. 18.9 a month and below in 1960-61 was 52.74 per cent on the basis of the NSS round for that year. The equivalent expenditure for 1973-74 by applying the consumer price index for agricultural labourers for that year to the base figure of Rs. 18.9 in 1960-61 comes to Rs. 53.5. The number of rural households with a per capita monthly expenditure of Rs. 53.5 and below was estimated at 59.3 per cent on the basis of the NSS round for that year. It appeared, therefore, that, between 1960-61 and 1973-74 instead of a decline in rural poverty, there was a rise of rural households below the proverty line as formulated by the Working Group with Dr. Rao himself as convener. The rural poor had thus increased in their number both absolutely and relatively to the total rural population.

The conclusion that rural poverty had increased in India over the period 1960-61 to 1973-74 is also borne out by the application of NSS data to the other formulations of poverty made by previous writers on the subject. Thus, if we take the pioneering study on Indian poverty made by Dandekar and Rath for 1960-61 and accept their estimate of an expenditure of Rs. 15 per capita a month as the poverty line for that year,

1. Vide an article entitled 'Rural Poverty Increases Despite Economic Growth', published in 'Capital', April 12, 1979.

and bring it forward for subsequent years by applying the consumer price index of agricultural labourers as a correcting factor, we get a figure of 40.56 per cent as the proportion of rural households in the expenditure class below the poverty line in 1973-74, compared with 34.73 per cent in 1960-61. This indicated an increase in the magnitude of rural poverty over the period, even if we accept a figure for determining the poverty line which is 20 per cent below that formulated by the Working Group of 1961, which is now more or less the officially accepted norm for a minimum standard of living for the rural areas.

Summing up the findings on the increase in rural poverty in India by the application of NSS data to the different formulations of the poverty norm by the previous writers on the subject, one arrives at the following table :

TABLE 75

Name	*Poverty norm in terms of per capita monthly consumer expenditure*		*Percentage of rural households with per capita consumer expenditure below the poverty norm*		*Difference in percentage points between cols. 5 & 4*
	1960-61 *Rs.*	*1973-74* *Rs.*	*1960-61*	*1973-74*	
1	*2*	*3*	*4*	*5*	*6*
Bardhan	14.0	39.6	29.80	34.59	+5.21
Dandekar and Rath	15.0	42.5	34.73	40.56	+5.83
Working Group of 1961	18.9	53.5	52.74	59.26	+6.52
Ashok Rudra	22.7	64.2	66.17	70.74	+4.57

It will be seen that the rise in the percentage of rural households with the per capita consumer expenditure below the poverty norm in 1973-74 over that in 1960-61 falls in percentage terms over the base percentage in 1960-61 with an increase in the consumer expenditure associated with each poverty norm, thereby indicating that the comparative rise in poverty becomes less and less the higher up we go in the monthly per capita expenditure class for determining poverty. Conversely, the lower the expenditure class we take in the base year for determining poverty, the higher is the rise we find in 1973-74, compared with 1960-61. This seems to indicate that the intensity of rural poverty had been increasing over the period besides an increase in its magnitude.

The conclusion that rural poverty had increased during this period is also borne out by the Reserve Bank studies on rural debt and investment for 1961-62 and 1971-72. The Reserve Bank had carried out an All India Rural Debt and Investment Survey for 1961-62 and an All India

Debt and Investment Survey for 1971-72. The data contained in these two surveys throw some light on the changes which took place in the magnitude of poverty over the decade 1961-62 to 1971-72. The first Issue of Volume 2 of the Reserve Bank Staff Occasional Papers contains a comparative study of the pattern of rural assets for 1961-71 on the basis of these data.

The study defines the 'rural' poor as consisting of rural households who owned assets of a total value of less than Rs. 1,000 in 1961. The corresponding figure for 1971 is placed at Rs. 2,500 to allow for the rise in the money value of these assets during the ten-year period. The number of rural households in June, 1971 was 7.70 crores, comprising 548 lakh cultivators (72.4 per cent), 111 lakh farm labourers (14.6 per cent), 10 lakh artisans (2.4 per cent) and 82 lakh other non-cultivators (10.6 per cent).

The data show that while the number of cultivator households increased by 10.8 per cent over the period, the number of such households that could be classified as poor in 1971 (i.e. having assets of a total value of less than Rs. 2,500 compared with Rs. 1,000 in 1961) was more than that in 1961 by 27 per cent. In other words, the number of the poor among the cultivator households increased at nearly three times the rate of increase in the total number of cultivator households, the absolute figures being 10.3 million in 1971, compared with 3.1 million in 1961. During the same period, the number of cultivator households who did not have any of the household articles on the basis of minimum value of Rs. 5 in 1961 and Rs. 15 in 1971 increased from 750,000 to 2.1 million.

As for agricultural labour households, their number increased during this period by 14.1 per cent, compared with 10.8 per cent for cultivator households. But the proportion of agricultural labour households owning land declined from 12.6 per cent in 1961 to a mere 5.5 per cent in 1971 ; and the share of land in the total assets of all agricultural labour households came down from 29.2 per cent to 17.1 per cent.

The position of artisans as a class was better than that of agricultural labourers in all the States. At the all-India level an average artisan household owned assets more than twice of those owned by an agricultural labour household.

RATE OF INCREASE

Taking all the rural households together, the number of 'poor' households (total value of whose assets was Rs. 2,500 in 1971 and Rs. 1,000 in 1961) which constituted more than one-third (35.2 per cent) of the rural households, increased by 6.4 million during the period to reach 27.1 million in 1971. The rise in the number of all poor rural households was thus 30.9 per cent, compared with a rise of only 12.2 per cent in the total number of all rural households. It is clear, therefore, that the Reserve Bank data also support the conclusion that rural poverty increased during the period 1961-71.

To give one example alone of the actual economic conditions of farmers here : an agro-economic study conducted in the representative district of Eastern U.P., viz. Ballia, by a team of Pantnager Agricultural University experts led by Dr. B.D. Singh, published in June, 1974, stated :

> "A vast majority of small marginal farms in Eastern Uttar Pradesh are economically 'unviable'....
>
> "The farmers are living in abject poverty and, despite supplementing their income by earnings from non-agricultural sources, they are hardly able to subsist....
>
> "In Ballia District, 85 per cent of all farmers are below the poverty line as against the all-India average of 50 per cent....
>
> "An income of Rs. 240 a year is, in fact, required for a bare minimum standard of living. The study has revealed that only six per cent of the marginal farms (less than 2.5 acres) and 33 per cent of the small farms (between 2.5 to 7.5 acres) are viable.
>
> "Of the below poverty line marginal farmers, about 60 per cent are almost at the rock-bottom. They earn less than Rs. 500 a year. Their families on an average consist of eight persons."

Dr. V.K.R.V. Rao's article referred to above published in the 'Capital', April 12, 1979 makes a comparison of only two years, 1960-61 and 1973-74. Estimates are, however available for most of the years between 1957-58 and 1973-74. These have been comprehensively examined by Montek Ahluwalia in a paper on 'Rural Poverty and Agricultural Performance in India'.

This paper examines time series evidence on rural poverty over the past two decades. The time series shows that the incidence of poverty fluctuates in response to variations in real agricultural output per head, but there is no significant time trend. There is a statistically significant inverse relationship between rural poverty and agricultural performance for India as a whole, suggesting that agricultural growth by itself tends to reduce the incidence of poverty.

Table 76 in Ahluwalia's paper shows that rural poverty declined between 1957-58 and 1960-61, then it rose upto 1967-68 and again declined thereafter. Statistics in this table have been obtained as a weighted sum of the estimated percentages in poverty in individual States, derived from the NSS distributions for individual States and the States' specific poverty line. Poverty line used here is a consumer expenditure level of Rs. 15 per person for 30 days at 1960-61 rural prices.

TABLE 76

NSS Based Estimates of Rural Poverty in India

Year	*Percentage of rural population in poverty*	*Sen's Poverty Index**	*Size of poverty population (million)*
1956-57	n.a.	0.23	n.a.
1957-58	53.4	0.22	182.0
1958-59	n.a.	0.19	n.a.
1959-60	48.7	0.17	173.0
1960-61	42.0	0.14	152.0
1961-62	42.3	0.14	157.0
1963-64	49.1	0.16	189.0
1964-65	50.4	0.17	198.0
1965-66	51.1	0.21	205.0
1966-67	57.4	0.24	235.4
1967-68	57.9	0.24	241.0
1968-69	53.5	0.20	227.0
1970-71	49.1	0.18	217.0
1973-74	47.6	0.17	221.0

*This index ranges from 0 to 1.

The most important feature of the results presented in the above table is the marked fluctuation over time in the extent or incidence of rural poverty. The percentage in poverty declines initially from over 50 per cent in the mid-'fifties to around 40 per cent in 1960-61, rises sharply through the mid-'sixties, reaching a peak in 1967-68, and then declines again.

A later study of rural and urban incomes and the disparities in the two sectors, though relating only to one agricultural year, 1975-76, that was made by the NCAER or the National Council of Applied Economic Research (embodied in its report, 'Household Income and its Disposition') at the instance of the Ministry of Finance, Government of India, presents a comprehensive analysis of the pattern and distribution of income, wealth and saving for the household sector in the country both in the rural and urban areas. Its findings in regard to household income by income class are given in Table 77.

TABLE 77

Share in Household Income by Income Class

Income range Rs.	*Percentage of households* *Rural*	*Urban*	*Percentage of share in income* *Rural*	*Urban*
1,200 & below	8.31	1.33	2.00	0.2
1,201—2,400	29.81	11.55	13.8	3.0
2,401—3,600	24.24	18.08	18.3	7.6
3,601—4,800	14.60	16.28	15.4	9.5
4,801—6,000	9.19	13.78	12.6	10.4
6,001—7,500	5.00	10.13	8.6	9.7
7,501—10,000	3.90	11.23	8.7	13.5
10,001—15,000	2.97	8.62	9.2	14.6
15,001—20,000	1.04	4.20	4.5	10.2
20,001—25,000	0.49	2.07	2.8	6.6
25,001—30,000	0.25 } 4.95	1.22 } 17.61	1.8 } 20.7	4.7 } 46.1
30,001—40,000				
40,001—60,000	0.20	1.50	2.4	10.0
over 60,000				
All incomes	100.00	100.00	100.00	100.00

From the statistics in the above table it can be seen that only 4.95% of the rural households had an annual income of Rs. 10,000 and above, and their share in the total income was 20.7% whereas 17.61% of urban households had an annual income of Rs. 10,000 and above, and that their share in the total urban income was 46.1%. Currently all incomes below Rs. 12,000 a year are exempt from income-tax. Therefore, it can be concluded that the incidence of taxable incomes in rural areas is much less as compared to that in urban areas. However, if we look at the composition of income by income range in rural and urban areas, it will be found that in higher income ranges, most of the income even in rural areas is derived from non-agricultural pursuits. The finding of the National Council of Applied Economic Research in this regard is presented in the following table:

TABLE 78

Composition of Income by Income Range in Rural and Urban Areas

Income range	*Agriculture* *U*	*R*	*Business* *U*	*R*	*Salary* *U*	*R*	*Wage* *U*	*R*	*Others* *U*	*R*
Less than 3,600	4.7	40 1	17.3	6.0	16.4	2.3	54.6	45.0	7.0	6.3
3,601—7,500	5.0	58.5	21.1	7.0	50.5	11.7	15.6	16.2	7.8	6.6
7,501—15,000	4.7	64.5	26.9	8.4	56.5	18.8	2.1	2.1	9.8	6.2
15,001—30,000	3.8	74.5	29.4	9.8	57.7	10.0	0.1	0.2	9.0	5.5
over 30,000	6.4	40.5	44.1	38.8	41.0	7.5	neg.	—	8.5	13.2

Note : U : Urban R : Rural

In the income range of over Rs. 30,000 per annum in rural areas, only 40.5% of the income was derived from agriculture, and the rest from business and salary etc. From this it follows, that the few in villages, who appear to be rich, derive their income not so much from land, as from business, salary, pension or other sources.

It is interesting to note from yet another table given in the report, reproduced below, that out of the total rural income of Rs. 30,160 crores, less than half, i.e., Rs. 14,444 crores, was contributed by agriculture. The household sector enjoyed the total income of Rs. 45,158 crores during the agricultural year ending June, 1976. Rural India contributed two-thirds of this income, but contribution of agriculture to this was less than one-third.

TABLE 79

Composition of Household Income

Source	*Rural*		*Urban*		*All India*	
	Rs. crores	%	*Rs. crores*	%	*Rs. crores*	%
Agriculture	14,444	47.88	541	3.61	14,986	33.19
Livestock	1,979	6.56	169	1.13	2,147	4.76
Business	2,394	7.94	3,965	26.44	6,358	14.08
Salary	2,870	9.51	7,360	49.10	10,239	22.65
Agricultural wage	4,003	13.27	77	0.51	4,080	9.03
Non-agricultural wage	2,522	8.36	1,586	10.58	4,108	9.10
House property	1,089	3.61	765	5.17	1,864	4.13
Dividend and interest	91	0.30	65	0.44	157	0.35
Transfer income	775	2.57	452	3.02	1,228	2.72
All sources	30,167	100.00	14,991	100.00	45,158	100.00

Some other findings of the study are as follows :

(1) That the average income of an urban household was Rs. 7,074 and that of an average rural household only Rs. 3,920.

(2) That the number of households with incomes of Rs 30,000 and above in the urban sector was 3,18,000 which was 1.5% of the total number of urban households, and their share in the urban income was 10%. In the rural sector, the number of households with incomes of more than Rs. 30,000 was 1,59,000 which constituted only 0.2% of the total number of rural households, and they enjoyed only 2.4% of the total rural income. From this it follows that the frequency of the rich in the urban society is 7-1/2 times more than that in the rural society, and also that the urban rich manage to corner proportionately more than 4 times the share of the rural rich in rural incomes.

(3) That of the rural households 77% had an annual income of Rs. 4,800 or less, while the proportion of urban households with incomes below this level was only 47%.

(4) That 95.8% of the households in the lowest income group of Rs. 1,200 or less per annum were in the rural sector.

(5) That the average income of the topmost 1% of the rich households in the rural areas was Rs. 28,200 whereas the richest 1% in the urban area had an average income of Rs. 55,163 which is nearly twice the average income of topmost 1% of the rural population.

Wealth

The study has brought out much greater disparity in the distribution of wealth amongst urban households than in the rural households. The wealthiest 1% families in cities control 20.7% of the total urban wealth whereas 1% of the wealthiest families in the rural areas control only 13.12% of rural wealth. Quite often the land ownership pattern as revealed by the Agricultural Census 1970-71 is quoted to bring out the disparity in the rural society. According to this report, large land-holdings of 10 hectares or above constitute 4% of the total number of land-holdings and account for 30% of the land under operational holdings in the country. But the disparity in the urban society is much worse. 4% of the top wealthiest persons in cities control 41.89% of the urban wealth, according to the NCAER report. This would be clear from a perusal of the following table :

TABLE 80

Household Wealth by Percentile Groups

Wealth percentile	*Rural*			*Urban*		
	% share in wealth		*Average household wealth (Rs.)*	*% share in wealth*		*Average household wealth (Rs.)*
Bottom 5	0.03		125	—		—
5-10	0.13		468	0.01		23
10-20	0.61		1,091	0.24		300
20-30	1.34		2,411	0.52		652
30-40	2.38		4,280	0.83		1,038
40-50	3.75		6,742	1.65		2,052
50-60	5.66		10,162	3.13		3,894
60-70	8.02		14,419	5.29		6,591
70-80	11.60		20,846	9.37		11,664
80-90	18.25		32,786	16.59		20,658
90-95	14.98		54,408	16.08		40,278
96	4.13		74,159	4.40		54,778
97	4.52	29.12	81,127	5.44	41.89	67,717
98	5.15		92,564	6.88		85,661
99	6.33		1,13,783	9.50		1,18,320
100	13.12		2,35,661	20.07		2,49,918

Now, the total number of rural households in the country during 1975-76 was 77.4 million. 5 and 10 per cent of that works out to be 3.87 and 7.74 million respectively. By multiplying the number of households in any given percentile group with the average wealth per household in that percentile group, we can calculate the total wealth of that percentile group, and in the same way, of the bottom 20% of the rural households as shown below :

TABLE 81

Wealth percentile	*Number of households (millions)*	*Average per household wealth (Rs.)*	*Total wealth (Rs. crores)*
Lowest 5	3.87	125	48.38
5-10	3.87	468	181.12
10-20	7.74	1,091	844.93
Bottom 20	15.48		1,073.93

This calculation brings out the fact that the total wealth of the bottom 20 per cent of the rural households—who also constitute nearly one-sixth of the nation—is less than the total net assets of each of the top two industrial houses in India, that is, the Birlas and the Tatas.

The disparity between rural and urban sectors in the ownership of wealth stands confirmed by the Government of India in the form of a reply to a question given on the floor of the Rajya Sabha on 8th May, 1979. The reply revealed that in the whole of rural India, 16,664 persons were assessed for Wealth Tax (which included their non-agricultural wealth also) and the total tax levied on them was Rs. 1,85,66,000, whereas, in Delhi alone, the number of assessees (on non-agricultural wealth only) was 19,149 and the total tax levied on them was Rs. 3,48,25,000. *From this it follows that the number of wealthy persons in the city of Delhi alone exceeds the number of wealthy ones in the rural sector throughout the country, and also that taxable wealth in the capital city is nearly twice as much as the total taxable wealth in the whole of rural India.*

Still another alarming aspect of the income distribution between the two sectors which produce material wealth—Agriculture and Industry, or Primary and Secondary—stands confirmed by the Central Statistical Organisation of the Government of India. They have worked out per capita national income and its sectoral distribution at 1970-71 prices. While per capita national income derived from agriculture has stagnated roundabout the same figure as it was in 1950-51, per capita national income derived from industry has more than doubled. The table prepared by the CSO is reproduced below :

TABLE 82

Per capita National Income and Sectoral Domestic Product

Year	Amount in Rupees (at 1970-71 prices)			Index : 1950-51=100		
	National Income	Net domestic product		National Income	Net domestic product	
		Agriculture	Industry		Agriculture	Industry
1	2	3	4	5	6	7
1950-51	466.0	283.2	68.0	100.00	100.00	100.00
1951-52	468.1	282.9	66.3	100.45	99.89	97.50
1952-53	475.8	291.8	64.9	102.10	103.4	95.44
1953-54	497.5	308.9	67.7	106.76	109.07	99.56
1954-55	500.7	303.9	72.3	107.45	107.31	106.32
1955-56	507.7	298.5	78.7	108.95	105.40	115.74
1956-57	524.8	307.2	83.8	112.62	108.47	123.24
1957-58	503.3	286.1	81.4	108.00	101.02	119.71
1958-59	534.2	310.9	84.3	114.64	109.78	123.97
1959-60	532.3	300.0	88.4	114.23	105.93	130.00
1960-61	558.9	312.8	95.3	119.94	110.45	140.15
1961-62	564.8	308.2	100.1	121.05	108.83	147.21
1962-63	559.6	293.3	104.3	120.01	103.64	153.38
1963-64	576.3	295.1	112.2	123.67	104.20	165.00
1964-65	607.7	315.0	118.1	130.41	111.23	173.68
1965-66	561.9	264.8	118.3	120.58	93.50	173.97
1966-67	552.1	255.1	117.2	118.48	90.43	172.35
1967-68	588.2	289.2	118.3	126.22	102.12	173.97
1968-69	590.3	284.0	120.8	126.67	100.28	177.65
1969-70	614.4	295.6	127.5	131.85	104.38	187.50
1970-71	636.1	312.7	127.1	136.50	110.42	186.93
1971-72	629.4	303.0	127.3	135.06	106.99	187.29
1972-73	606.4	276.1	128.7	130.13	97.49	189.26
1973-74	626.0	291.2	128.4	134.7	102.12	188.12
1974-75	617.9	278.3	130.0	132.7	98.27	191.18
1975-76	659.3	303.6	135.0	141.48	107.20	198.53
1976-77	655.2	282.0	146.1	140.60	99.58	214.85
1977-78	689.9	306.5	149.8	148.5	108.33	220.29
1978-79						

Note : Agriculture includes livestock, forestry and fishing while Industry includes registered and unregistered manufacturing, construction and electricity, gas and water supply.

As for the ratio between agricultural and non-agricultural incomes, since within the same household different members can be engaged in different occupations such as agriculture, small-scale industries and transport, it is not possible to classify all the members within any household as exclusively either agricultural or non-agricultural. Because of these difficulties, the population censuses do not attempt collection of data in respect of per capita agricultural or non-agricultural income and the economic activity classification is available for the *workers only*. Estimates of income per worker separately for agricultural and non-agricultural workers for the years 1950-51 and 1960-61 to 1977-78 are given in the following table :

TABLE 83

Income of Agricultural and Non-agricultural Workers (at 1970-71 Prices)

Year	*Income per worker (Rs)*			
	All workers	*Agricultural workers*	*Non-agricultural workers*	*Ratio of col. 4 to 3*
1	*2*	*3*	*4*	*5*
1950-51	1172.9=100	959.9=100	1712.9=100	1.78
1960-61	1471.6	1111.1=115.75	2373.9=138.58	2.13
1961-62	1508.5	1109.0	2509.1	2.26
1962-63	1519.1	1069.5	2646.4	2.47
1963-64	1584.6	1087.2	2832.5	2.60
1964-65	1694.3	1177.7	2991.1	2.53
1965-66	1581.9	993.4	3060.5	3.08
1966-67	1579.2	968.8	3114.1	3.21
1967-68	1706.2	1116.3	3190.4	2.85
1968-69	1735.9	1112.7	3305.2	2.97
1969-70	1828.1	1174.3	3475.8	2.96
1970-71	1921.1	1266.4=131.93	3572.4=208.55	2.82
1971-72	1933.7	1244.6	3673.0	2.95
1972-73	1888.1	1149.2	3754.8	3.26
1973-74	1965.2	1229.8	3824.4	3.10
1974-75	1962.2	1185.9	3926.4	3.31
1975-76	2121.5	1308.7	4179.7	3.19
1976-77	2131.8	1215.8	4453.3	3.66
1977-78	2270.6=198.59	1340.63=139.66	4629.7=270.28	3.45

Notes :
1. 'Agriculture' includes agriculture, animal husbandry and allied activities.
2. Data on workers for 1961 and 1971 are derived from population census after adjusting 1961 data for conceptual differences and published in National Accounts Statistics, January, 1978 (Appendix A1, p. 126). 1950-51 data are from Final Report of National Income Committee, 1954 (Table 5, p. 23).
3. Annual estimates of total number of workers for other years and agricultural workers are worked out using compound annual growth rate between 1961 and 1971 and annual change in proportion respectively.
4. Data on income at 1970-71 prices are from National Accounts Statistics (January, 1979) and Press Note on Quick Estimates of National Income (January, 1979).

The percentage increase in per capita income per worker of all kinds during 27 years viz., from 1950-51 to 1977-78 came to 98.59% ; that for agricultural workers to 39.63% and that for non-agricultural workers to 170.28 per cent.

The ratio between the per capita income of agricultural workers and non-agricultural workers which stood at 1 : 1.78 in 1950-51 widened to 1 : 3.45 in 1977-78.

The following table taken from a non-official study shows that during a period of two decades and a half of the post-independence period 1950-75, the productivity per worker in the agricultural sector is not only well below the same in the country as a whole but has deteriorated as time has passed. On the other hand, the relative product per worker in industry has steadily increased. Further, the differences between the relative product per worker in the Agriculture (A) and the other two sectors have widened with the passage of time while the same between the Industry (I) and Services (S) sectors have almost bridged during the recent periods. The increasing dependence of the population on agriculture without an increment in its output, sufficient enough to keep its relative share in total product constant, dampened its relative product per worker. Consequently, inter-sectoral inequality in productivity per worker has been accentuated against this sector.

TABLE 84

Relative Product per Worker Sector-wise

(Country-wide Product per Worker=1.00)

Sector	*1951*	*1961*	*1971*	*1975 (Estimated)*
1. Agriculture (A)	0.71	0.69	0.64	0.58
2. Industry (I)	1.66	1.83	1.96	2.11
3. Services (S)	1.81	1.73	1.96	2.11
4. I/A	2.34	2.65	3.06	3.64
5. S/A	2.55	2.51	3.06	3.64
6. S/I	1.09	0.95	1.00	1.00
7. Sectoral inequality (total)	41.6	44.0	52.7	60.3

Source: Birla Institute of Scientific Research, New Delhi, Structural Transformation and Economic Development, published by Arnold-Heinemann, New Delhi, pp. 80-81.

The results of yet another non-official study relating to the annual earnings of three classes of workers, viz., those employed in the administration of the Central Government, the business of banking and insurance in the public sector and agriculture as labourers, over a period of 16 years, 1960-76, as embodied in the following table, show that, while, as compared with 1960-61, the earnings of Central Government employees and those engaged in banking and insurance went up by 80.0 per cent and 50.8 per cent respectively in 1975-76, those of the agricultural labourers came down by 48.37 per cent during the same period :

TABLE 85

Earnings per person per annum at Constant 1960-61 Prices

Year	*All India*		*Central Govt. Administration*		*Banking & Insurance*		*Agricultural Labour*	
	Earnings Rs.	*Index*	*Earnings* (*Rs.*)	*Index*	*Earnings* (*Rs.*)	*Index*	*Earnings* (*Rs.*)	*Index*
1960-61	703	100.00	4,152	100.00	4,038	100.00	552	100.00
1961-62	708	100.71	4,878	117.5	4,835	119.74	443	80.25
1962-63	702	99.86	5,740	138.3	5,352	132.54	459	83.15
1963-64	718	102.13	5,247	126.4	5,198	128.73	416	75.36
1964-65	761	108.25	5,160	124.3	5,184	128.38	402	72.83
1965-66	708	100.71	4,405	130.2	5,389	133.68	424	76.81
1966-67	690	98.15	5,668	136.5	5,555	137.57	377	68.30
1967-68	744	105.83	5,762	138.8	5,618	139.13	437	73.55
1968-69	747	106.26	6,507	156.7	5,840	144.63	437	79.17
1969-70	773	109.96	6,972	167.9	5,744	142.25	441	79.89
1970-71	790	112.38	6,935	167.0	6,075	150.45	442	80.07
1971-72	793	112.80	7,019	169.0	6,329	156.74	420	76.09
1972-73	778	110.67	6,643	160.0	6,312	156.32	378	68.48
1973-74	803	114.22	6,385	153.8	6,426	159.14	290	52.54
1974-75	773	109.96	7,593	182.9	6,037	149.50	227	41.12
1975-76	847	120.48	7,804	188.0	6,089	150.79	285	51.63

Savings

If we have a look at the savings per household, both in the rural and urban sectors, as revealed by the study made by the NCAER, disparity between urban and rural sectors will become all the more glaring. The rural saving per capita in 1975-76 was Rs. 106, and the urban saving per capita Rs. 272 which is more than 2½ times the average rural saving.

Now, some estimable persons consider this growing disparity between the agricultural and non-agricultural workers as a natural consequence of development. This is a totally erroneous belief because in developed countries, the gap between the two incomes is becoming narrower and narrower still as time passes, and, in a few of them, the average income of an agricultural worker, for example, in New Zealand and Netherlands is equal to that of a non-agricultural worker.

The poor savings in the rural households is also reflected in the declining trend of gross domestic capital formation in agriculture as a percentage of the total gross domestic capital formation in all sectors, figures for which are quoted below from the National Accounts Statistics for the years 1950-51 and 1960-61 and for the period from 1970-71 to 1977-78 :

TABLE 86

Gross Domestic Capital Formation

(Rs. in crores)

	From all sectors	*From agriculture*	*Percentage of Col. 2 to 1*
	1	*2*	*3*
1950-51	954	208	21.8
1960-61	2544	395	15.5
1970-71	7192	1301	18.09
1971-72	7939	1268	15.97
1972-73	8032	1489	18.54
1973-74	11175	1646	14.72
1974-75	13915	1857	13.34
1975-76	15131	2029	13.40
1976-77	17381	2685	15.44
1977-78	18536	2990	16.1

As Shri Bhanu Pratap Singh, Ex-Minister of State for Rural Reconstruction, Government of India, has pointed out in one of the issues of the 'Farmers' Voice', New Delhi :

"From the foregoing statistics it can be concluded without fear of contradiction that rural India is much poorer, than the urban ; that most of the wealth is concentrated in cities ; that there is greater disparity in income and wealth distribution in cities than in villages ; that income transfer from villages to cities has nearly neutralised the higher production in agriculture ; and that the average villager has not derived any significant benefit from planned development during the last 28 years."

Apart from comparatively low financial allocations to agriculture and cottage industries, Government's attitude towards the village hitherto is reflected in the discrimination it has made in the provision of social amenities like health, housing, transport, power and, above all, education, available to the urban and rural areas—discrimination in investment in the human factor in the town and the village. Investment in social amenities is, at least, as important as *inputs* like fertilisers and irrigation in agriculture. When the man behind the plough is not healthy or educated, he cannot make efficient use of these inputs.

In a report on the unemployment problem in Columbia, submitted to the International Labour Organisation (ILO) about 1971, Professor Seer's team had pointed out that since the major part of the population lived on the land, land reforms and heavy investment in rural roads, schools and health centres were necessary both to create more jobs in the rural areas and to keep the population there.

According to the 1971-72 report of the Health Ministry, Government of India, whilst 85 per cent of the urban population had piped water supply, only 22,500 villages with a total population of 1.63 crores (about 3 per cent of the total rural population) could boast of the facility. In 90,000 villages there was no water within a radius of one mile. Yet, in the Fourth Plan (1969-73), out of Rs. 401 crores in the public sector, Rs. 276 crores (68.8%) were spent for urban water supply and sanitation, and only Rs. 125 crores (31.2%) for rural water supply.

In 1971-72, at the instance of the Central Government, various State Governments which were asked to identify the problem and difficult villages where protected drinking water supply was not available, identified 1,52,475 villages as falling in this category. By the end of March, 1978, the number of villages which had been provided with safe drinking water facilities, came to 57,818. The balance, 94,978 remained to be covered in the Sixth Plan period.

In 1978, however, a number of State Governments reported that in addition to the villages identified in the survey of 1971-72, there were other villages in their States which also did not have protected drinking water supply facilities. The total number of such villages reported by the States stood at 1,38,666. Taking the two set of figures together for the country as a whole, the total number of villages which were without safe drinking water facilities today came to 2,33,644.

Primary health care and essential curative services for the population living in rural areas is provided through the network of primary health centres and dispensaries located in these areas. As on 31st March, 1978, there were 5,400 primary health centres and about 38,000 sub-centres functioning in the rural areas. One hundred and twenty-six primary health centres have since been upgraded to 30 bedded rural hospitals to enable them to function as a first chain in the link of referral services in the country. As at present one primary health centre serves a population of about 1 to 1.25 lakh and a sub-centre, a population of 10,000.

Although the coverage of population by a dispensary in rural and urban area compares favourably at all-India level, keeping in view the scatteredness of the villages, their density of population etc., the reach of medical services to rural masses through a network of dispensaries is poor in terms of the yardstick of its 'sufficiency'. The position is worse still in terms of provision of hospitals and availability of beds in the hospitals functioning in rural areas. The table below gives an idea of the gravity of this position obtaining in the rural parts of the country :

TABLE 87

	Rural	*Urban*	*All-India*
Hospital beds	1 for 8,387 population	1 for 350 population	1 for 1,412 population
Hospitals	1 for 3,00,000 population	1 for 35,000 population	1 for 1,20,000 population
Dispensary of all types	1 for 49,000 population	1 for 30,000 population	1 for 43,000 population
Primary Health Centres	1 for every CD Block	—	—
Sub-centres (for maternal and child care)	1 for 10,000 population	—	—

The death rate per thousand (of population) in rural India is two-thirds more than in the cities (15 : 9) and villagers on an average live ten years less than their city counterparts. But no doctor wants to live in the village. The blame for this sad state of affairs does not lie so much with the doctors as with the prevailing system of medical education : the vast majority of medical students come from elitist urban backgrounds ; their training in the colleges is in western, curative medicine, rather than in community-oriented preventive medicine, with the result that the townsman has nine times as good a prospect of medical attention as a villager.

As Michael Lipton has pointed out, neither wicked foreigners nor wicked capitalists can be blamed for much of the misallocation of medical resources towards cities in poor countries. "The Government, if it could be neutral, could deter doctors from using their training, received at public expense, to relieve rich nations of the need to expand their own medical schools. The Government, if it were concerned to maximise social benefit, could build rural health centres with the money now used to equip its main (urban) hospitals with extremely costly facilities. Why does the Government not do these things ? Not because it is wicked, but because it consists of human beings under natural pressures. The doctors who desire New York incomes are the sons or nephews of Ministers and civil servants; so are the rich city-dwellers who clamour for, and can afford, attention. Villagers just have the wrong relatives. In a less-developed country 'the executive of the modern state is but a committee for managing the common affairs', not of the bourgeoisie but of the townmen; not of a bourgeois state but of a burghers' state. That the bonds are those of family, propinquity and personal concern, rather than of 'class solidarity', makes them all the stronger.[2]

There is no provision for disposal of human excreta in almost the entire countryside which contaminates the environment and leads to so many diseases. There could be nothing more shameful for India than that its women should still have to sit in the open in order to ease themselves despite attainment of political independence more than thirty years ago. A beginning could easily be made with providing sanitary facilities, at least in comparatively big villages. But no thought has been given to the problem at all, because it does not face the mothers and daughters of our political leaders largely drawn from the urban elite that they are.

According to a Government of India publication, *India-1974*, an assessment made in 1971 revealed that 1.2 crore housing units which had become unserviceable, needed to be rebuilt. The assessment also showed that an equal number of units would be required to provide dwellings to the households which did not have independent housing units at all. The total requirement was put at 2.41 crore units—0.55 crore in urban areas and 1.86 crores in rural areas.

Yet, out of a total expenditare in public sector of Rs. 189.48 crores on housing during the Fourth Plan period, only Rs. 17.8 crores, that is, less than 9.5 per cent, were used for rural housing. Of this paltry amount, Rs. 12 crores were spent on the scheme providing house-sites to agricultural landless labourers.

According to a recent study made by the Reserve Bank of India little attention had been given to the rural housing problem in recent years. By 1978, only about 67,000 houses had been constructed in rural areas all over the country against five million rural households who had no housing in 1971. The total housing finance provided by major institutional credit agencies had amounted to between Rs. 750 crores to Rs. 800 crores. Almost all of this had benefited urban areas and virtually nothing had been done for rural areas.

As against the need for providing 15 million houses in rural areas estimated by the National Buildings Organisation in March 1979, the All-India Debt and Investment Survey of 1971-72 revealed that at least the houses of 23 million rural poor were in urgent need of replacement. The houses of the poor cultivator households were even inferior to those of non-cultivators.

Reconstruction of houses of these poor households and also providing houses to new households which may come into existence by 1981,

2. *Why Poor People Stay Poor*, pp. 268-59.

would involve construction of about 43 million units at a cost of Rs. 13,090 crores.

Assuming Rs. 1,740 crores in the form of beneficiaries' contribution and the value of voluntary labour the gap would be Rs. 11,350 crores, if the programme was spread over 10 years.

It must be realised, however, that houses have little value unless means of living have first been improved. So, the entire resources and attention have, first, to be devoted to provision of productive employment for all the people in the country. People will build their own houses once they are assured of a stable source of income—a kind of income which, let us be clear in our minds, will add to the material wealth of the nation.

Almost next only to agriculture, the most important thing for India was transport facilities in the countryside. Transport is like breathing. One realises its importance only when one loses it. Without roads and transport, agriculture would always remain at the subsistence level. Its produce just would not reach the market. But most of the villages still remain unconnected and, therefore, closed to the outside world even after 30 years of Independence.

The following table shows the accessibility of villages by roads on 31-3-78 :

TABLE 88

Accessibility Position of Villages by Road

Population category	*Total No. of villages*	*Number of villages connected with*		*Number of villages still remaining to be connected with*	
		All weather roads	*Fair weather roads*	*All weather roads*	*Any road*
1500 and above	69681	37729	13949	31952	18003
1000-1500	54623	22985	9816	31638	21822
Less than 1000	451632	107925	69062	343707	274645
Total	575936	168639	92827	407297	314470

In Nigeria it had been discovered that better marketing could increase agricultural income by some 20 to 25 per cent. While better marketing certainly included marketing facilities, improved storage, distribution, packing, delivery, etc., the greatest component consisted in better roads and speedy transportation.

In our country today, even a large number of markets regulated under the Agricultural Produce Markets Acts enacted in the various States, still suffer from lack of development of physical facilities in the form of roads, provision for stay of farmer, drinking water for men and cattle and auction platforms. At places the bidders still combine to offer poor price to the growers. So far as thousands of the primary agricultural markets situated in the rural area, known as 'haats' or 'shandies', are concerned, their condition is simply indescribable. The several deductions and market charges that a producer has to pay to the trader and his agents, reduces his share in the price that the trader charges from the consumer. Even in towns at tehsil and district headquarters where the agricultural markets are not regulated by law octroi charged by local bodies and cesses or imposts known as *dharmada* etc., charged by the trader are spent on providing amenities like education, medicine and roads to town-dwellers rather than on improvement of rural areas.

So far as telephones in the villages are concerned, they are yet a distant dream. But if a better life for the villagers too is one of our aims, the government will have to invest massive amounts of money into building the rural infrastructure—roads, electric power plants, phone systems and the like.

As on December 31, 1978, out of 5,76,000 villages, 2,25,000 or 39.1 per cent were electrified. Only in four States, however, viz., Haryana, Kerala, Punjab and Tamil Nadu, has electrification of the villages been achieved cent per cent or nearly cent per cent. The percentage of villages electrified in Andhra Pradesh, Jammu & Kashmir, Karnataka and Maharashtra stood at a figure of 55.4, 62.5, 57.6 and 62.9, respectively. The ratio is far less in other States.

There has been discrimination also, at least till recently, in the cost of energy charged from farmers as compared with industrialists. To take the case of Uttar Pradesh, comparative figures of actual cost of energy per unit supplied to industrialists and agriculturists some years ago are given below :

TABLE 89

Actual Cost of Energy for Industry and Agriculture

	Actual cost/unit for industry in paise	*Actual cost/unit for agriculture in paise*
1970-71	7.40	15.78
1971-72	7.48	16.68
1972-73	8.73	26.47
1973-74	9.31	29.75

As against the cost of 9.31 paise per unit of power consumed in industry as a whole and that of 29.75 paise per unit for agriculture in 1973-74, an agreement was entered into between the U.P. Government and the firm HINDALCO of Birlas in June, 1975 under which it was to be supplied 30 megawatts of energy at 11.0 paise per unit. The reader will be shocked to learn that formerly the price charged from the Birlas since April 1962 stood at *2 paise* per unit only which was below the actual generation cost. *The concessional rate to the Birlas had meant a loss of Rs. 29 crores to the State exchequer till March, 1978.**

The Union Government's irrigation and power team had condemned the State Government's 25-year long contract for the supply of electricity from the Rihand project to the aluminium company at below-cost rates. According to the team's calculation, had the cost of generation been correctly worked out, it should have come to 2.85 paise per unit. The rate fixed for the sale of power was thus 0.85 paise per unit less than the cost of generation. On the annual contracted supply of 434 million Kwh of energy, the element of 'subsidy' to the firm would work out to Rs. 36.90 lakhs annually. If the increase in the capital cost of the project over the 1956 estimate by about Rs. 4 crores was also taken into account, the cost per unit would work out to 3.16 paise and, on this basis, the element of 'subsidy' would work out to Rs. 50.35 lakhs.

On the other hand, every cultivator in U.P. who put up a tube-well on his own, had to pay Rs. 180 per HP per year whether he actually received any energy or not. This pushed the cost of energy supplied to the farmers still higher.

The favoured treatment which the capitalists got from the Government of Uttar Pradesh, at the cost of the poor masses, was generally true of other States also.

A study undertaken by the Planning Commission in 1971 had revealed that the innards of a refrigerator could yield enough metal, copper and aluminium, to draw three miles of wire for electrification of irrigation pumps, but instead of the production of refrigerators being curbed, it was allowed to expand. Crops could grow without water, but the town-dwellers could not go without refrigerators !

The village lands on the periphery of the cities are acquired for a pittance for urban and industrial uses. The city authorities sell these lands to the urban rich, sometimes at a price more than hundred times what was paid to the villagers in compensation. Their lands are taken over from them in the same way as a conquering army would take over the properties of the subjugated people.

How the policies of the governments in India dominated by urban

*It may not be irrelevant to point out here that it was this decision of the State Government headed by Dr. Sampurnanand taken early in 1959 that led to the resignation of the writer from the State Government in 1959.

interests work out against the poor farmer as compared with urban-based business, will be clear from yet another example viz., if the farmer defaults in payment of even one rupee of land, his land-holding which is his only source of subsistence, is auctioned away immediately, whereas, however large the amount of loan or other dues that may be payable by an industrialist or a trader, the realisation of the arrears if they are not waived by Government or written off by nationlised banks in its behalf, is limited only to his share in the business or the company. The arrears cannot be realised from other assets unless it is a 'public' company which is rarely the case.

Education opens up the mind of a person as nothing else does. It is now generally recognised that education rather than being an effect of economic development in general, is a condition for it, and this would also be true for the agricultural sector. But, as in other spheres, an urban bias is noticeable in education too. Rural areas of our country lack in education facilities even of the primary and the secondary standard, as compared to the urban areas. According to the census report of 1971, the figures of literacy for the rural and urban areas stood at 23.6 and 52.48 per cent respectively. Further, the quality of education in rural areas, since the advent of *Swaraj*, has deteriorated, and that in urban areas has improved so that the difference between the quality of the product of the institutions in the two areas has also noticeably widened.

The rural child seldom gets even half the town child's chance of an education. Also inadequate, in quantity and quality, is the village educands' share of teachers. In 1961, there were just over twice as many teachers (of all types), per person of teachable age, working in urban areas as in rural areas. Moreover, the disparity increased as the level of schooling rose; at secondary level, there were seven times as many teachers per potential pupil in urban as in rural areas.

Figures alone cannot convey the inappropriateness of rural schooling. Textbooks often identify urbanisation with success. Competent training for farming is very rare. Drop-out is worsened by bad timing of vacations—in India's biggest State, Uttar Pradesh, school examinations coincide with the peak harvest season !

Also, as Tables 89 and 90 would show, the opportunities of acquiring technical and higher education available to the youth of urban areas are far, far greater than to those of the rural areas.

A study of socio-economic background of students in twelve colleges and institutions of professional training covering six professions, viz., architecture, engineering, law, management, medicines and social work made by Baldeo R. Sharma, published in the February 1976 issue of the 'Economic and Political Weekly', Bombay, reaches the conclusion

TABLE 90

Data on Technical and Vocational Education and Training Institutions and Enrolment in them—as on 31.12.1973

Type	*Rural*		*Urban*	
	Institutions	*Enrolment (in lakhs)*	*Institutions*	*Enrolment (in lakhs)*
1. Polytechnics	32	0.07	295	0.96
2. Industrial Training Institutes	36	0.09	329	1.30
3. Junior Technical Schools	50	0.07	216	0.38
4. Crafts and Handicrafts	177	0.04	293	0.14
5. Industrial and Technical Schools	263	0.10	1131	0.66
6. Nursing, ANM and Health Visitors	22	0.01	504	0.33
7. Music, Dance and Drama Schools	15	0.02	179	0.17
8. Others	175	0.16	508	0.54
Total	770	0.56	3455	4.48

TABLE 91

Data on Number of Rural and Urban Institutions in Higher Education and Enrolment in them—as on 31.12.1973

Type of institution	*Rural*		*Urban*	
	No. of institutions	*Enrolment (in lakhs)*	*No. of institutions*	*Enrolment (in lakhs)*
1. Universities	18	0.25	93	2.49
2. Arts, Science and Commerce Colleges	910	3.08	1968	13.77
3. Engineering/Technology	19	0.11	61	0.46
4. Medicine (Allopathy)	9	0.06	95	0.71
5. Ayurveda/Unani	11	0.01	61	0.12
6. Pharmacy	—	—	9	0.02
7. Dental	—	—	8	0.02
8. Nursing	—	—	10	0.01
9. Agricultural	3	0.01	6	0.02
10. Veterinary	1	*	2	0.01
11. Others	143	0.14	429	1.10
Total	1114	3.66	2742	18.73

*Negligible.

Note: Figures are based on, and are derived from the Third All-India Educational Survey.

that "in a country which is still predominantly rural, the representation of rural students in the selected professions is to the extent of only 13 per cent whereas those from urban area are grossly over-represented".

TABLE 92

Background	*Number*	*Per cent*
Village	219	13.88
Town (less than 1 lakh)	268	16.01
City (1 lakh or more)	1159	69.24
Not ascertained	28	1.67
Total	1674	100.00

Less than two per cent of the fathers of the students were in blue collar occupations ; only 11 per cent were in agriculture ; and just six per cent were doing clerical work, including the work of salesmen. Altogether, only one-fifth of the fathers were in these three categories of work. As against this, 72 per cent of fathers were either holding supervisory and executive positions in industry and government or were self-employed professionals. As many as 59 per cent of the fathers were senior government officers, businessmen or professionals.

Similarly, an analysis of joint entrance examination of the five Indian Institutes of Technology in 1975 showed that the typical candidate was about 17 years of age belonging to a family of five, with the father or guardian earning around Rs. 14,500 annually. He hails from a city and has studied in an English medium school. The chances of success increase with the increase in parental income, the success rate of candidates with parental annual income above Rs. 25,000 being nearly ten times that of the candidates coming from the poorest families.

Only 20 per cent of the successful candidates belonged to 'poor families' with parental annual income of not more than Rs. 6,000. The candidates from cities were more than six times as successful as those from villages and secured 90 per cent of the merit list positions.

How the general population of the village, that is, the population other than Scheduled Castes or Tribes fares in the matter of lower technical education, will be clear from a report which the 'Statesman', New Delhi, carried in its issue dated April 18, 1976 :

NEW CLASS OF HAVE-NOTS
(From Our Special Representative)

A much more under-privileged class than the Scheduled Castes and Tribes, at least in technological education, has emerged from an analysis of the joint entrance examination for the Indian Institute of Technology.

This class is the entire rural community other than the Scheduled Castes and Tribes. Few from this class succeeded in last year's examination whereas among the Scheduled Castes and Tribes, with their reservation of seats and the lower qualifying standards prescribed for them, nearly half were from the rural areas and three-fourths from Indian languages schools which, apparently, also were largely the schools to which the other rural candidates went.

This analysis of the examination result by Dr. A.K. Basu of the Delhi I.I.T., has set the authorities thinking.

The Council of I.I.Ts, which met here today with the Education Minister, Professor Nurul Hassan in the Chair, decided to inquire into the causes of this apparent inequality of opportunity that such a large class of people have to bear.

The concessions have allowed Scheduled Castes and Tribes to secure 21% of the places in I.I.Ts. Students from this class also have special coaching to make up for the lower admission standards prescribed for them. They receive, in addition, Rs. 150 per month towards their expenses.

It may be relevant to point out here that while not less than half of our peaple are living below the poverty line today, the Scheduled Castes and Tribes constitute only 22.5 per cent of our population, and not all of them live below the poverty line. Also that, it would seem, the benefit of reservation of government jobs in favour of, and other facilities granted to, members of these castes and tribes has not made any dent on the monopoly of social, economic, political, educational and administrative power enjoyed by a few higher castes or the urban elite today, but, as the 'Statesman' points out, it has served to create a new class of 'have-nots', particularly in the northern part of India. Perhaps for more reasons than one, the policy of job reservation, whether relating to Scheduled Castes and Tribes or Backward castes, requires a fresh look.

The neglect of adult education in India is enormous. Almost every developing country which had made remarkable strides in the eradication of illiteracy, namely, China, Cuba, or even Tanzania, has concentrated as much on adult education programmes as on those for children of school-going age. India must follow the example of those countries whose experience has shown that people learn and are willing to learn only when what is being taught them is linked with what they do every day. We must have scientific literacy programmes for different sections of the population and take into account their cultural, economic and social backgrounds.

Given the necessity for agricultural growth in the country, it should not be difficult for those who may be in charge of our destinies to understand that agricultural education, training and research should be given high priority. But experience thus far shows that there is no such understanding on the part of our political leaders and economic planners. Agricultural education still constitutes a 'separate category' which does not benefit from the general planning and re-planning. It is devalued as compared with general education, and represents, in fact, an instrument of social segregation.

"Agricultural education", says Michael Lipton, "is seldom available at primary level, i.e., before the age of 12, and children at school after 12 seldom return to the farm. The Education Commission, by advocating Agricultural Universities outside the university system proper, underlined the low prestige of agriculture as a discipline. At the level of research, few of India's leading social scientists would prefer the testing of hypotheses at village level to the construction of aggregative models in Delhi (or the USA) ; the allocation of finance for research projects supports this preference."[3]

Mr. Lipton goes on to point out that research into the relations between inputs and outputs still concentrates on the industrial sector. We do not know, even roughly, whether an extra hundred rupees yields more rice in Kerala or West Bengal, in relief or in fertiliser subsidiary output.

Nor has the need to develop skills relevant to the rural areas been sufficiently realised. The entire orientation of science and technology should be towards the development of appropriate production techniques including minor mechanical improvements which would increase productivity without reducing labour absorption, remove the drudgery of work and raise living conditions in the rural areas. For example, improved ploughs and irrigation equipment need to be designed which are suited to local conditions and these must be spread in the countryside. Once crop production, processing and other activities get imbued with a scientific outlook, rural life would become attractive. Of course, upgradation of technology must be selective so that the content of the job improves without the jobs themselves being lost. Low cost and simple improvements would also ensure that benefits reach the weaker sections of the population.

Presant attitudes to work are determined by diet, especially protein ; by climate, especially humid heat at peak seasons ; by health, especially worms and dysentery ; and by the yield of, and need for effort. But the impact of diet and health on agricultural efficiency has not yet been considered a fit subject for research and analysis.

3. A paper by Michael Lipton : 'Strategy for Agriculture : Urban Bias and Rural Planning' included in Strecton and Lipton : *The Crisis of Indian Planning*, Oxford University Press, London, Bombay 1968, p. 103.

As part of evidence of urban bias in agricultural planning, one may refer here to the relatively slow growth of coarse grains and pulses—of crops high in protein but low in prestige—and consumed largely for subsistence in rural areas. The planners being primarily concerned with extracting a food surplus for the towns, have devoted more attention to wheat and rice.

Further, whatever kind of education is available to the boys coming from or belonging to the village, it acts as a motivation for the rural talent to seek urban employment. A survey of Delhi University students showed that in 1957-58 only 3.8 per cent came from farm families, and as few as 1.1% wished to return to agriculture. In this survey 22.2 per cent came from rural areas. A roughly comparable study suggests that at most 7.5 per cent return there, so that at least two-thirds of Delhi University's rural-based students (22.2-7.5, as a proportion of 22.2) were 'drained' to urban areas as a concomitant (and in many cases surely as a result) of university education. The main reason consists in the fact that the village under present policies offers poor job prospects to trained persons, so that (apart from a few idealists) the rural-born ex-educand who returns home is a failure. In India in 1960-61, one in eight matriculates and graduates living in rural areas was jobless, as against about one in sixteen in the towns. Once in work, the matriculate might expect to earn over 43 per cent more in urban than in rural areas, and the urban graduate over three times more—as against only 25 per cent for the uneducated—barely enough to cover the extra transport and housing requirements of urban life, on top of the 10 to 15 per cent higher urban prices.

One will also find that the gap between the pay and status of public servants working in urban and rural areas is wide. Through wage incentives, the Central and State Governments can stimulate the supply of productive personnel to rural areas. But they seem to follow the reverse policy. Teachers and civil servants receive city compensatory allowance if they live in cities, but no allowance for living in rural areas. The prestige, prospects and pay of the Indian Administrative Service are at their height, particularly, in the Foreign Ministry; Agricultural Administration, especially at the crucial level of the development block, is almost always in the hands of people with no chance of entering the IAS. More prestige attaches to a class II officer occupying an executive post in the police or PCS cadre than to a class I officer serving in the Department of Agriculture.

Among private employments, those in the modern mills have acted as a magnet for the people from surrounding villages. The higher productivity of the urban industrial worker which has resulted in higher wages, has given birth to a life style that has proved the greatest cause of the rural exodus.

One need not wonder, therefore, if it is becoming difficult to persuade bright young people to take up careers in rural-oriented fields such as forestry or agricultural science, or, if skilled workers go on shifting from the village to the town. Rapidly rising urban incomes, together with the high income-elasticity of demand for private services draw lawyers, doctors and others to the cities.

Simultaneously, our rich folk-lore is rapidly vanishing from the villages. *Teej*, a festival of song and entertainment meant exclusively for women; *Holi*, accompanied by music and songs reminding the people of the exploits of glory and valour of their ancestors ; religious discourses by *purohits* or *Sanyasis* and other signs of cultural and community life have gradually disappeared or are on the way to disappearance. *Ram Lilas* are gradually becoming things of the past ; wrestling *akharas* are looked down upon. Nor have the *Panchayat-ghars* yet taken the place of the old *Chaupals* which were the hubs of social and cultural life of the village. All these activities or entertainments have now been replaced by the cinema with all its permissiveness and demoralising influence on the hitherto closely-knit rural society.

Encouraged by the educational system, in fact, by the urban bias in all our policies and administration, exodus from the village to the town is the effect as well as the cause of growing inequality. The young people, educated and enterprising, who could provide rural leadership and initiate change, are migrating to the towns. Whereas the urban elite, doctors for example, disdain the village as uncouth and unlivable. In fact, all educated persons resist being posted in the villages. Even those who were born and brought up in villages, do not want to go back to their homes after completing their education or service careers in cities. So, the migration is mostly one way. The result : While urban power grows as skilled graduates concentrate in the cities, rural life deteriorates as it is denuded of its potential intelligentsia. The attractions of city life have drawn most ambitious and energetic members of the rural population away from the villages—precisely those who could have played a key role in the transformation of their economic life, had they stayed in their homes. Thus it is not merely capital resources, but also talent or brain power that is being drained to the town which goes on impoverishing the village further and further.

More ominous, the villagers themselves seem to share the vision of city life as the way of the future. They look upon the city as an opportunity for a better life, if not today, if not for themselves, at least, for their children some day.

The above description of urban bias in Indian planning and administration is an exact replica of what is happening in South-Eastern countries of Asia. Thus writes Richard Smith in an article entitled 'Tilting Toward the City' published in the 'Newsweek' (USA), May 17, 1976 :

> "In the Philippines, government agencies and private investors alike pour vast sums into gleaming new skyscrapers, high-rise apartments and office complexes. Meantime, out in the rural barrios, untold numbers of children never go to school because they lack sufficient clothes. In Indonesia, despite government efforts to disperse the nation's 7,000 doctors throughout the sprawling archipelago, at least 3,500 of them continue to live and work in Jakarta ; this means that 50 per cent of the country's physicians serve less than 4 per cent of the population. And in Burma, years of official indifference to the nation's agricultural base has produced an incredible result : once the world's largest rice exporter, Burma today barely feeds itself and crop yields are still dropping.
>
> "The variations on the theme are endless. Asia's governments rooted as they are in great cities, seem locked in escalating conflict with their own rural citizenry—and, almost without exception, the farmers are losing. In an age when progress is frequently equated with industrialisation, glossy, high-technology urban projects take precedence over mundane agricultural ventures. The members of Asia's new business and government elites tend to be urban-educated and urban-oriented, disdainful of rural life and ignorant of the problems of the countryside. As a result, national budgets are invariably skewed towards the cities in everything from health care to highway construction. And such minimal resources as are allocated for rural development are often dissipated by inefficient bureaucrats or siphoned off by corrupt ones before they ever get to the countryside."

Part Two

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The variations on the theme are endless. Asia's governments rooted as they are in great cities, seem locked in escalating conflict with their own rural citizenry—and, almost without exception, the farmers are losing. In an age when progress is frequently equated with industrialisation, glossy, high-technology urban projects take precedence over mundane agricultural ventures. The members of Asia's new business and government elites tend to be urban-educated and urban-oriented, disdainful of rural life and ignorant of the problems of the countryside. As a result, national budgets are invariably skewed towards the cities in everything from health care to highway construction. And such minimal resources as are allocated for rural development are often dissipated by inefficient bureaucrats or siphoned off by corrupt ones before they ever get to the countryside."

9

Industrial Pattern

"The State shall endeavour to promote cottage industry on an individual or cooperative basis in the rural areas."

—Article 43 of the Constitution of India

Man's wants other than food are so numerous and so diverse that virtually no limit can be placed on the use or consumption of manufactured goods and utilisation of social services. Nor is there any serious limiting factor in the industry and service sectors, analogous to the availability of land in agriculture which will impede the realisation of increasing returns. There is, therefore, no limit to the amount of non-agricultural resources and number of opportunities that a developing country like India may need or choose to create and, thus, no limit to the number of persons who can be employed in non-agricultural occupations. So that development of non-agricultural resources is necessary not only *as a means of raising our standard of living but also as a source of employment*.

The question is what kind of industrial pattern we shall adopt, or should have adopted on the attainment of political Independence in 1947. There are two points of view or schools of thought—one represented by Mahatma Gandhi, the *zeitgeist* of India's political awakening, and the other by Jawaharlal Nehru, the first Prime Minister of free India.

However, before we proceed to discuss the pattern of industrialisation that will suit our country, it is necessary to define the various kinds of industries.

A 'cottage' industry may be roughly defined as one which is carried on by members of a family or household and produces traditional commodities with the aid of hand-driven equipment and techniques. A 'small' industry is one which, if carried on by power, employs *not more than nine* hired workers and, if carried on without power, employs *not more than nineteen* workers. All industries other than cottage and small-scale industries may be defined as capital-intensive or large industries.

Mahatma Gandhi always advocated the use and encouragement of cottage industries in the country. He said India lived in villages, not in cities. Villagers were poor because most of them were under-employed or unemployed. They have to be given productive employment which will add to the wealth of the nation. In the circumstances of the country which had such vast man-power and comparatively little land and other natural resources, he argued, it would only be cottage industry, which required little or nominal capital, that could provide the needed employment and otherwise answer our needs best, not capital-intensive, mechanised industry based on the Western model of economic growth which would only add to unemployment and concentrate wealth in the hands of a few, and thus usher in capitalism with all its abuses. The *charkha*, the spinning wheel, which is associated with his name, was only a symbol of all kinds of handicrafts and cottage industry.

However, Gandhiji did not aim at the eradication of all machinery ; he only advocated its limitation. All that he wanted was to "utilise the idle hours of the nation and bring work to the people in their homes particularly when they had no other to do". Cheap methods and cheap machines which could be accessible virtually to every one was his primary concern. "I want the dumb millions of our land to be healthy and I want them to grow spiritually....If we feel the need of machines, we certainly will have them. Every machine that helps an individual has a place", he said, "but there should be no place for machines that concentrate power in a few hands and turn the masses into mere machine-minders, if indeed they do not make them unemployed."

When asked if he was against all machinery, Gandhiji said :

> "My answer is emphatically No. But I am against its indiscriminate multiplication. I refuse to be dazzled by the seeming triumph of machinery. But simple tools and instruments and such machinery as lightens the burden of millions of cottages, I would welcome."[1]

We shall here quote an interview which makes Gandhiji's attitude to machinery quite clear :

> "What I object to is the craze for machinery, not machinery as such. The craze is for what they call labour-saving machinery. Men go on 'saving labour' till thousands are without work and thrown on the open streets to die of starvation. I want to save time and labour not for a fraction of mankind, but for all : I want the concentration of wealth not in the hands of a few, but its distribution in the hands of all. Today, machinery merely helps a few to ride on the back of milions. The impetus behind it all is not the

1. 'Young India', 17 June, 1926.

philanthropy to save labour, but greed. It is against this constitution of things that I am fighting with all my might."[2]

Q. "When logically worked out, that would seem to imply that all complicated power-driven machinery should go."

A. "It might have to go but I must make one thing clear. The supreme consideration is man. The machine should not tend to make atrophied the limbs of man. For instance, I would make intelligent exceptions. Take the case of the Singer Sewing Machine. It is one of the few useful things ever invented."

He firmly held that "to industrialise India in the same sense as Europe, was to attempt the impossible". He wrote thus in the 'Young India' dated July 25, 1929, p. 244 :

"The Western civilisation is urban. Small countries like England, or Italy may afford to urbanise their systems. A big country like America with a very sparse population perhaps cannot do otherwise. But one would think that a big country, with a teeming population, with an ancient rural tradition which has hitherto answered its purpose, need not, must not, copy the Western model. What is good for one nation situated in one condition, is not necessarily good enough for another, differently situated. One man's food is often another man's poison. Physical geography of a country has a predominant share in determining its culture. A fur coat may be a necessity for the dwellers in the polar regions; it will smother those living in the equatorial regions."

No draught power, chemical discovery or mechanical invention being able to increase productivity of land per acre a hundredfold as it is able to do per worker in the sphere of manufacturing, and our land resources per capita being meagre, the largest proportion of the Indian population will always remain engaged in agriculture rather than in industry or service sectors, and live in villages rather than in towns. Therefore, even when industrialisation has been achieved to the maximum extent possible, India can never aspire to attain the material standards of the Western Countries.

Gandhiji, indeed, looked back with yearning to the days of old autonomous and more or less self-contained village community where there had been automatic balance between production, distribution and consumption, where political and economic power was spread over and not concentrated as it is today, where a kind of a simple democracy prevailed, where the gulf between the rich and the poor was not so marked, where the evils of great cities were absent and people lived in contact with life-saving soil and breathed the pure air of open space.

2. 'Young India', dated 13-11-1924.

Voicing his unqualified preference for decentralised production through small units, he once said : "Instead of production by the fewest possible hands through the aid of highly complicated machinery at a particular centre, I would have individual production in people's own homes multiplied by a million of times."

The clear principle that he would have liked India to follow was that heavy or capital-intensive industry shall be established only for production of goods which could not be manufactured otherwise, and large-scale mechanised projects undertaken only for purposes which could not be carried out by human labour on a small or cottage scale. His views are finally summed up as follows in his own words :

> "If I can convert the country to my point of view, the social order of the future will be based predominantly on the *Charkha* and all it implies. It will include everything that promotes the well-being of the villagers. I do visualise electricity, ship-building, iron works, machine-making and the like existing side by side with village handicrafts. But the order of dependence will be reversed. Hitherto, the industrialisation has been so planned as to destroy the villages and the village crafts. In the state of the future it will subserve the villages and their crafts. I do not share the socialist belief that centralisation of production of the necessaries of life will conduce to the common welfare, that is, when the centralised industries are planned and owned by the state."[3]

Gandhiji was clear in his mind that industrialisation on a mass scale would lead to exploitation and ultimate ruin of the village. In an earlier article, viz., in 1936, he had written as follows :

> "I would say that if the village perishes India will perish too. India will no more be India. Her own mission in the world will get lost. The revival of the village is possible only when it is no more exploited. Industrialisation on a mass scale will necessarily lead to passive or active exploitation of the villages as the problems of competition and marketing come in. Therefore, we have to concentrate on the village being self-contained, manufacturing *only for use*. Provided this character of the village industry is maintained, there would be no objection to villagers using even the modern machines and tools *that they can make and can afford to use*. Only they should not be used as the means of exploitation of others." (*vide* 'Harijan', 29 August, 1936)

3. *Why the Constructive Programme* ?, published by the All India National Congress, 1948, p. 19.

With freedom round the corner, the Congress Working Committee, in its meeting held in Bombay on September 12, 1945, held a discussion on the social and political objectives of the Congress after independence. A decision was, however, postponed for the next meeting.

"But whether the Working Committee sits or not", wrote Gandhiji to Nehru on October 5, "I want our position vis-a-vis each other to be clearly understood. If the difference of outlook between us is a fundamental one...the public should be made aware of it. It would be detrimental to our work for *Swaraj*...to keep them in the dark....

"While I admire modern science, I find that it is the old looked at in the true light of modern science which should be reclothed and refashioned aright. You must not imagine that I am envisaging our village life as it is today. The village of my dreams is still in my mind. After all, every man lives in the world of his dreams. My ideal village will contain intelligent human beings. They will not live in dirt and darkness as animals. Men and women will be free and able to hold their own against anyone in the world. There will be neither plague, nor cholera, nor small-pox ; no one will be idle, no one will wallow in luxury. Everyone will have to contribute his quota of manual labour.... It is possible to envisage railways, post and telegraph...and the like...."

When, in 1941, Gandhiji declared Jawaharlal Nehru as his heir, he had hoped that Nehru would speak his language when he himself had gone. The hope was soon belied. Nehru began to talk differently from Gandhiji in the latter's own life-time. In reply to Gandhiji's letter dated October 5, 1945, already referred to, Nehru had written to him on October 9, 1945 as follows :

> "A village, normally speaking, is backward intellectually and culturally, and no progress can be made from a backward environment. Narrow-minded people are much more likely to be untruthful and violent."

After a talk with Nehru, Gandhiji wrote to him as follows from Poona on October 13, 1945 :

> "The impression that I have gathered from yesterday's talk is that there is not much difference in our outlook. To test this, I put down below the gist of what I have understood. Please write to me if there is any discrepancy.
>
> (1) The real question, according to you, is how to bring about man's highest intellectual, economic, political and moral development. I agree entirely.
>
> (2) In this there should be an equal right and opportunity for all.
>
> (3) In other words, there should be equality between the town-

dwellers and the villagers in the standard of food and drink, clothing and other living conditions. In order to achieve this equality today people should be able to produce for themselves the necessaries of life i.e. clothing, foodstuffs, dwelling and lighting and water.

(4) Man is not born to live in isolation but is essentially a social animal, independent and inter-dependent. No one can or should ride on another's back. If we try to work out the necessary conditions for such a life, we are forced to the conclusion that the unit of society should be a village, or call it a small and manageable group of people who would, in the ideal, be self-sufficient (in the matter of their vital requirements) as a unit and bound together in bonds of mutual cooperation and inter-dependence.

If I find that so far I have understood you correctly, I shall take up consideration of the second part of the question in my next."

No correspondence between the two after the above letter is available to the writer.

Jawaharlal Nehru, however, stood all out for industrial growth with prior emphasis being laid on heavy or capital-intensive industries. In his letter of October 9, 1945, referred to above, he had gone on to say :

"Then again we have to put down certain objectives like food, housing, education, sanitation etc. which should be the minimum requirement for the country and for everyone. It is with these objectives in view that we must find out specifically how to attain them speedily. Again, it seems to me inevitable that modern means of transport as well as many other modern developments must continue and be developed. There is no way out of it except to have them. If that is so, inevitably a measure of heavy industry exists. How far (will that) fit in with a purely village society? *Personally I hope that heavy or light industries should all be decentralised as far as possible and this is feasible now because of the development of electric power ; if two types of economy exist in the country there should be either conflict between the two or one will overwhelm the other.*

"The question of Independence and protection from foreign aggression, both political and economic, has also to be considered in this context. I do not think it is possible for India to be really independent unless she is technically an advanced country. I am not thinking for the moment in terms of just armies but rather of scientific growth. In the present context of the world we cannot even advance culturally without a strong background of scientific research in every department. There is today in the world a tremendous acquisitive tendency both in individuals and groups and nations, which leads to conflicts and wars....From the economic or political point of view an isolated India may well be a kind of a vacuum which increases the acquisitive *tendencies* of others and thus creates conflicts."

The picture which Nehru had in mind is further reflected in the speech he made before the National Development Council in January 1956 :

"In the meeting of the Standing Committee...greater stress was laid on the heavy machine-making industry being encouraged, as it was said to be the basis of industrial growth. If you do not do that, then naturally industrial growth is delayed. There is one approach which has sometimes been put forward that you should build up your consumer goods industries and gradually save money thereby, and build up something else, thereby getting some more employment. That, I believe, from the point of view of planning, is a discarded theory completely. Of course, it does some good here and there ; I would not enter into the details but this approach is not a planned approach at all. If you want India to industrialise and to go ahead, as we must, as is essential, then you must industrialise and not potter about with old little factories producing hair oil and the like—it is totally immaterial what things are, whether they are small or big consumer articles. You must go to the root and base and build up the structure of industrial growth. Therefore, it is the heavy industries that count : nothing else counts, excepting as a balancing factor, which is, of course, important. We want planning for heavy machine-making industries and heavy industries, we want industries that will make heavy machines and we should set about them as rapidly as possible because it takes time."

In April 1956 the Government of India laid down by way of a formal resolution known as the Industrial Policy Resolution, that in order to realise the objective of a 'socialistic pattern of society' it is essential to *accelerate the rate of economic growth,* speed up industrialisation, particularly develop heavy and machine-making industries, expand the 'public sector' and build up a large and growing cooperative sector. The resolution was embodied in the Second Five-Year Plan.

Jawaharlal Nehru made his position very clear in his speech delivered at the meeting of the All-India Congress Committee, held in Chandigarh on 28 September, 1959. He said :

"The primary thing about an integrated plan was production and not employment. Employment was important, but it was utterly unimportant in the context of production. It followed production and not preceded production. And production would only go up by better techniques which meant modern methods."

In the long run, it was assumed by Nehru and his advisers, the rate of industrialisation and growth of national economy would depend on the increasing production of coal, electricity, iron and steel, heavy chemicals, and heavy industries generally, which would increase the capacity for capital formation. It was conceded that heavy industries required large amounts of capital and a long gestation period but, the argument ran, without them India would continue importing not only producer goods, but even essential consumer goods which will hamper accumulation of capital within the country. That is why all the five-year plans except the first were based on the premise that heavy industry was fundamental to rapid growth, that its expansion largely determined the pace at which the economy could become self-reliant and self-generating, and that it would in turn stimulate the growth of medium and small scale industry, producing its components and utilising its products, and thus ultimately provide a larger employment potential. The strategy governing planning was to industrialise the country at the earliest and that meant the basic heavy industries being given the first place.

CONDITIONS FOR CAPITAL-INTENSIVE INDUSTRIES NON-EXISTENT

The school of thought, opposed to Nehru's views, had pleaded that the Western model of development, which he wanted to copy, required large capital investment per worker, which was and is not practicable in India.

The quantity and quality of land and other natural resources being fixed, with a growing population, income or output per head will ordinarily rise only if the rate of growth of capital, or of improvements in technology, or of both combined, is not only greater but far greater than the rate of growth in population—it being assumed that the working force is imbued with a desire for material prosperity and works hard to that end. So that it is the rate of saving or accumulation of capital, in other words, capital formation or the net rate of investment in the economy, that is the primary determinant of economic growth.

Saving is the difference between income and expenditure and may be held in the form of cash or bank deposits. When these savings are invested, i.e., used to construct a building, a factory or develop a farm, we have capital formation. Theoretically, capital formation may include additions to stocks.

Of the two domestic sources of capital available, voluntary savings and taxes, we are here concerned only with the first. In a country with a dense agrarian economy, where incomes are low and levels of consumption are close to the subsistence level, where the bulk of the aggregate money income of the population is spent on food and relatively primitive items of clothing and household necessities, an increase in savings is not easy to achieve. Private consumption in 1973-74 was of the order of

Rs. 43,062 crores at current prices which amounted to 75 per cent of the gross national product, the food items alone accounting for 65 per cent of the consumption basket. And as bare necessities are met, further increases are made to population so that the supply of necessities must be constantly expanded. This leads to a situation which makes it hard to accumulate surplus or capital in any substantial quantity.

The Planning Commission's projection of the investment needed to generate one rupee's worth of extra output has gone hopelessly awry. The First Plan had assumed an incremental capital-output ratio of 3 to 1. Thanks mainly to excellent harvests and the cutting down of forests to extend the area under cultivation (the loss of timber and the ecological damage were, of course, never taken into account), the actual ratio turned out to be 1.88 to 1. For the Second Plan the planners postulated a ratio of 2.3 to 1, and for the Third and Fourth Plans they expected it to be 2.62 : 1 and 3.36 : 1 respectively. All the projections turned out to be wildly optimistic. The actual ratios proved to be more than twice as high during the Second, Third and Fourth Plans.

Now, assuming that the capital-output ratio can be reduced to 4 : 1 in future, and population growth rate brought down from the present figure of 2.5 per cent per annum to 2.25, just to maintain the present standard of living, we need to make an investment of 9 (2.25×4) per cent of the national income annually. So that an increase of 1 per cent of output per head will require an additional investment of 13 (Rs. $9.00 + 4.00$) per cent in all, and an increase of 2 per cent, an investment of 17 per cent. A calculation by the logarithmic method shows that capital investment at the rate of 17 per cent will take 51 years to double our present standard of living; whereas, according to the following table, the ratio of savings to net domestic product took 27 years to increase from 7.0 in 1950-51 to 17.8 in 1977-78 :

TABLE 93
Domestic Savings : Gross and Net

Year	*Net Domestic Savings*		*Gross Domestic Savings*	
	Rs. Crores	*Rate of Savings**	*Rs. Crores*	*Rate of Savings***
1	*2*	*3*	*4*	*5*
1950-51	651	7.0	975	10.2
1951-52	646	6.7	1,005	10.0
1952-53	417	4.5	806	8.3
1953-54	530	5.3	922	8.8
1954-55	625	6.8	1,054	10.9
1955-56	982	10.0	1,430	13.9
1956-57	1,113	9.8	1,599	13.5
1957-58	834	7.5	1,370	11.4
1958-59	782	6.1	1,409	10.5
1959-60	1,104	8.3	1,765	12.6
1960-61	1,327	9.3	2,063	13.7
1961-62	1,281	8.4	2,093	13.1

(*Contd.*)

(*Table 93 Contd.*)

1	2	3	4	5
1962-63	1,544	9.6	2,476	14.5
1963-64	1,825	9.8	2,826	14.4
1964-65	2,023	9.2	3,135	13.6
1965-66	2,562	11.2	3,791	15.7
1966-67	3,112	11.8	4,514	16.3
1967-68	2,939	9.6	4,497	13.9
1968-69	3,011	9.5	4,697	14.1
1969-70	4,129	11.8	6,044	16.4
1970-71	4,584	12.0	6,798	16.8
1971-72	5,059	12.3	7,461	17.1
1972-73	5,064	11.2	7,735	16.1
1973-74	7,753	13.8	10,783	18.2
1974-75	9,664	14.6	13,262	19.0
1975-76	11,165	16.0	15,248	20.6
1976-77	14,052	18.7	18,538	23.3
1977-78	14,643	17.8	19,498	22.4

* As % of net domestic product at market prices.
** As % of gross domestic product at market prices.

Notes: (1) Data source for 1950-51 to 1959-60 : White Paper, CSO (Jan. 1978).
(2) Data source for 1960-61 to 1969-70 : White Paper, CSO (Oct. 1978).
(3) Data source for 1970-71 to 1976-77 : White Paper, CSO (Jan. 1979).
(4) Data source for 1977-78 : Quick Estimates, CSO (Jan. 1979).

It is this hard irrefutable fact of low rate of saving arising out of the ratio between our huge population (with its potential growth), on the one hand, and natural resources, on the other, coupled with the disquality of our human factor, that advocates of high capital-intensive enterprises or heavy industries have overlooked. It is this fact which makes them wrong and those of low capital-intensive, decentralised industries, right.

In the ultimate analysis, capital is a product of labour applied to physical resources—application of one factor of production to another. It cannot be created by man out of nothing, or with bare hands out of having nothing to work upon. Financial resources or capital in most of its various forms can be constructed only out of natural or physical resources. The truth has to be faced that India does not possess sufficient physical resources relative to her population, at least, relative to the industrial ambitions of her politicians. And, while a nation can find the financial means for doing anything which it has the natural or physical resources to do, no amount of planning or financial jugglery can take the place of the latter (except to the extent, as example of Japan has shown, the deficiency in quantity and quality of material resources may be made good or compensated by the quality of the working force).

Of natural resources, land is the most important. A table showing availability of land per capita in hectares (1 hectare=2.471 acres) and percentage of economically active population engaged in agricultural occupations in some 49 economically important countries is given below :

TABLE 94

Per capita Land Utilisation (in Hectares) and Percentage of Economically Active Population engaged in Agriculture

Countries	Year	Total land	Land area	Arable land and land under permanent crops	Permanent meadows and pastures	Forest land	Total cols. (5+6+7)	% of economically active population engaged in agricultural occupation (1970)
1	2	3	4	5	6	7	8	9
1. Egypt	1970	3.00[1]	—	0.09	—	0.00	0.09	55
2. Netherlands	1970	0.28	0.26	0.07	0.10[2]	0.82	0.19	6
3. Belgium	1970	0.32	—	0.09	0.08	0.06	0.23	5
4. Puerto Rico	1969	0.33	0.33	0.09	0.12	0.05	0.26	14
5. Korea Rep.	1969	0.32	—	0.07	0.00	0.22	0.29	58
6. Japan	1970	0.35	—	0.05	0.01[3]	0.25	0.31	21
7. Germany F.R.	1970	0.41	0.40	0.13	0.09	0.12	0.34	10
8. U.K.	1969	0.44	0.43	0.13	0.22[5]	0.03	0.23	3
9. Ceylon	1970	0.52	0.52	0.16	0.03[6]	0.23	0.42	52
10. Israel	1970	0.71	0.70	0.14	0.28[7]	0.04[8]	0.46	10
11. India	1960	0.63	—	0.32	0.03[9]	0.12[9]	0.47	68
12. China Rep.	1967	1.30	—	0.15[10]	0.24	0.10	0.49	67
13. Italy	1970	0.56	0.55	0.28	0.10	0.11	0.49	21
14. Germany D.R.	1970	0.63	0.62	0.28	0.09	0.17	0.54	12
15. Switzerland	1965	0.70	0.68	0.07	0.30	0.17	0.54	7
16. Pakistan	1967	1.76	—	0.52[11]	—	0.08	0.60	70
17. Denmark	1970	0.87	0.86	0.54	0.06	0.10	0.70	12
18. Philippines	1970	0.81	0.81	0.24	0.04	0.43	0.71	70
19. Czechoslovakia	1970	0.89	0.88	0.37	0.12	0.31	0.80	16

(*Contd.*)

(*Table 94 Contd.*)

1	2	3	4	5	6	7	8	9
20. Portugal	1969	1.02	1.01	0.50[10]	0.06	0.29	0.85	37
21. Poland	1970	0.96	0.93	0.47	0.13	0.26	0.86	38
22. France	1969	1.09	—	0.38	0.28	0.28	0.94	14
23. Austria	1970	1.13	1.13	0.23	0.30	0.43	0.96	16
24. West Malaysia	1969	1.46	1.46	0.32	—	0.89	1.21	—
25. Thailand	1965	1.66	1.65	0.37	—	0.88	1.25	76
26. Greece	1966	1.53	1.50	0.42[12]	0.61	0.30	1.33	46
27. Ireland	1969	2.40	2.35	0.39	1.25	0.08	1.72	27
28. Guatemala	1964	2.53	—	0.35	0.24	1.25[14]	1.84	63
29. Turkey	1970	2.27	2.21	0.79	0.75[15]	0.52	2.06	69
30. Libyan Arab Rep.	1969	92.12	92.12	1.32	0.59	0.28	2.19	43
31. Norway	1970	8.36	7.95	0.21	0.03	2.15	2.39	13
32. Sweden	1970	5.59	5.12	0.38	0.05	2.83	3.26	9
33. Burma	1968	2.57	2.50	0.72[16]	0.01	1.72[17]	2.45	64
34. Colombia	1970	5.39	4.92	0.25[10]	0.81	2.43	3.49	45
35. United States	1964	4.87	4.78	0.92	1.35	1.54	3.81	4
36. Mexico	1960	5.47	5.47	0.66[19]	2.19[19]	1.21	4.06	47
37. Chile	1965	8.69	—	0.53	1.28	2.38[20]	4.19	25
38. Finland	1970	7.31	6.62	0.59	0.02	4.22	4.83	25
39. U.S.S.R.	1970	0.99[18]	—	0.96	1.54[21]	3.75[20]	6.25	32
40. South Africa[22]	1960	7.67	—	0.76	5.66	0.26[20]	6.69	30
41. Newzealand	1970	9.56	9.46	0.28	4.56	2.23[23]	7.07	12
42. Venezuela	1961	11.98	11.59	0.68	1.82[19]	6.30[20]	8.80	26
43. Brazil	1960	11.99	11.92	0.42	1.51[19]	7.30	9.23	44
44. Peru	1967	10.37	—	0.23	2.21	7.02[20]	9.46	46
45. Argentina[24]	1968	12.02	—	1.13	6.27	2.71	10.11	15
46. Paraguay	1967	18.83	—	0.44	4.63	9.51	14.58	53

47. Canada	1966	49.76	45.99	2.16	1.05[25]	22.10	25.31	8
48. Australia	1969	62.70	—	3.64[26]	36.71[27]	2.84	43.19	8

Source: FAO Production Year Book, 1971, Vol. 25, pp. 3 to 8 and 21 to 23.

Notes: 1. Of which inhabited and cultivated area accounts for 3558000 ha.
2. In agricultural holdings ; as from 1961 agricultural census.
3. 1960.
5. Data refer to land belonging to agricultural holdings exceeding one acre (0.40 ha).
6. Including scrub.
7. Land suitable for natural pasture.
8. Including potential area for afforestation.
9. Data relate to the reporting area of 305510000 ha.
10. Unofficial figure, except in the case of tables on population, indicates United Nations estimate.
11. Data relate to the reporting area of 67448000 ha.
12. 1968.
14. Agricultural holdings.
15. 1967.
16. Arable land used for more than one crop during the year has been counted twice.
17. Data taken from the world forest inventory carried out by FAO in 1958.
18. Including white sea (900000 ha) and Azov sea (3730000 ha).
19. In agricultural holdings.
20. Data taken from the world forest inventory carried out by FAO in 1963.
21. Excluding pastures for reindeer.
22. Excluding the territory of Walvis Bay.
23. Excluding unstocked land.
24. Continental Sector only.
25. Areas of natural pasture or hay land that had not been cultivated, brush pastures, grazing or wasteland, sloughs, marsh and rocky land, on occupied farms at 1966 agricultural census.
26. Of which 24787000 hectares are cultivated grassland.
27. Balance of holdings used for grazing lying idle etc.

There is no complete inventory of mineral resources that the various countries may possess. The following three tables, however, will show their relative position in respect of the more important ones. The minerals which are used in, by far, the greatest physical quantities in manufacturing industry, transport, etc. as a whole, are coal, iron ore and petroleum. Coal is essential in production of steel, and steel in fabrication of most machines. Petroleum turns the wheels of most engines and machines today and forms the base of many industrial products.

Figures in regard to coal and petroleum relate to total and per capita reserves of the country concerned, but figures in regard to iron ore relate to production only, those of reserves not being available.

As already stated in a previous chapter, it is not the amount of natural resources, but its per capita product, that is the main criterion of a country's economic development. According to Simon Kuznets, however, it should be a product high enough to indicate a relatively successful attempt to exploit the economic potential with the aid of modern technology. This attempt will be reflected in the percentage of non-agricultural workers a country has; greater the attempt, higher the percentage of workers engaged in non-agricultural activities. In other words, lesser the number of agricultural workers in a country, proportionately, more successful the attempt it has made to exploit its natural endowment ȧnd higher the standard of living of its people.

Judged by the above criterion, leaving out the tiny territories like Kuwait, Libya, Ireland and Saudi Arabia, with a respective population, in mid-1977, of 1187, 2636, 3198 and 7633 thousand, there are, according to the 1979 World Bank Atlas, only twenty-two countries in the world having a per capita GNP of $ 3300 or more. Now, as Table 94 would show, the percentage of the working force engaged in agriculture exceeded a quarter of the total only in two of these countries, viz. the U.S.S.R. and Poland where it stood at a figure of 32 and 38. Obviously, therefore, these two countries cannot qualify for inclusion in the category of economically-developed countries despite their sufficiently high GNP.

Of the remaining twenty developed countries, two, viz., Democratic Republic of Germany and Czechoslovakia were parts of Germany only 35 years ago and had attained great economic progress before they were sucked into the Communist camp. So that we are left only with eighteen countries whose mode of economic development has to be studied. Of these, barring Israel and Switzerland, sixteen can be divided into two categories of eight each, the first consisting of Netherlands, Belgium, Japan, Germany, the U.K. or Britain, Italy, Denmark and France—i.e. those countries which had little or few natural resources relative to population density, but had grabbed colonies and dependencies, thus making up for the lack of resources at home.

TABLE 95

Total and per capita Reserve of Coal

Countries	Coal		Brown coal and lignite		Million tonnes	Total coal	
	Year	Total million tonnes	Year	Total m. tonnes	cols. 3+5	Per capita on the basis of population for the year in col. 2	1973
1	2	3	4	5	6	7	8
1. Austria	1972	4	1972	173	177	23.63	23.51
2. Belgium	1973	253	—	—	253	25.93	25.93
3. Czechoslovakia	1966	11,573	1966[2]	9,857	21,430	1540.92	1471 84
4. Denmark	1970	—	—	20	20	4.06	3.98
5. Finland	—	—	—	—	—	—	—
6. France	—	—	—	—	—	—	—
7. Germany F.R.	1971	2,30,304	1972[6]	55,851	2,86,155	4668.87	4617.64
8. Germany D.R.	1956[2]	200	1966[2]	30,000	30,200	[1]	1778.56
9. Greece	—	—	1961[2]	1,575	1,575	—	176.37
10. Ireland	1967[2]	48	—	—	48	16.55	15.84
11. Italy	1973[2]	1	1972	110	111	—	2.02
12. Netherlands	1955-73	3705	—	—	3705	—	275.67
13. Norway	1972	151	—	—	152	38.68	38.38
14. Portugal	—	—	—	—	—	—	—
15. Sweden	1967[2]	90	—	—	90	11.44	11.06
16. Switzerland	—	—	—	—	—	—	—
17. U.K.	1973	1,62,814	—	—	1,62,814	2911.03	2911.03
18. U.S.S.R.	1971	39,93,357	1971	17,20,324	57,13,681	23313.53	22877 60
19. Canada	1970-73	97,041	1970	11,736	1,08,777	5102.11	4915.36
20. Guatemala	—	—	—	—	—	—	—

(Contd.)

(*Table 95 Contd.*)

1	2	3	4	5	6	7	8
21. Mexico	1973	12,000	—	—	12,000	213.68	213.68
22. Puerto Rico	—	—	—	—	—	—	—
23. United States	1972	22,86,763	1972	6,38,746	29,24,509	14003.59	13899.76
24. Argentina	1972	555	—	—	555	22.76	22.45
25. Brazil	1972	—	—	—	—	—	—
26. Chile	1969-72	3,945	1966[2]	5,365	9,310	972.83	910.07
27. Colombia	1971	4,100[13]	1971	—	4,100	181.16	176.65
28. Paraguay							
29. Peru	1966[2]	2,334	1966	4,630	6,964	579.85	467.07
30. Venezuela	1955-72	845	1953	26	871	—	77.22
31. Burma	1960[3]	21	—	—	21	—	0.71
32. Ceylon							
33. India	1972	80,953	1972	2,026	82,979	147.53	144.51
34. Israel							
35. Japan	1973	7,443	1973	1,185	8,628	79.63	79.63
36. Korea Rep.	1974	1,450	—	—	1,450	43.34	44.06
37. West Malaysia							
38. Pakistan	1966	190	1967[2]	280	470	9.03[3]	—
39. Philippines							
40. Thailand							
41. Turkey	1972	1,291	1972	5,991	7,282	200.33	194.91
42. China Peop. Rep.	1913	10,11,000[1]	1956[2]	700	10,11,700	[1]	[1]
43. Egypt	1965[2]						
44. Libyan Arab Rep.							
45. South Africa	1969	44,339	—	—	44,339	2026.46	1823.15

46.	Australia	1972	11,18,658	1973	86,702	1,98,567	15321.53	15123.15
47.	Newzealand	1969	678	1969	369	1,074	387.73	362.84
48.	Poland	1972[2]	45,741	1967[2]	14,862	60,603	1897.40	1816.64

Source: (i) *Statistical Year Book*, U.N.O., 1974.
(ii) *Demographic Year Book*, 1974.

Notes: 1. Information in respect of China given in the publication relates to the year 1913 hence per capita not calculated, and also for Germany D.R. pertaining to 1956.

2. Source—World Power Conference Survey of Energy Resources, 1968.

3. If total coal is distributed on population of present-day Pakistan in 1974 on the assumption that all the coal lay in it. If Bangladesh is included, the figure comes to 3.3.

6. Lignite and 'Pechkohte'.

7. Where data on recoverable reserves were unavailable, values which are 50% of 'Reserves in Place' have been used.

8. Production excludes brown coal which is included in the data for coal.

13. Resources estimates are conservative. Data on the number of known deposits is incomplete and most of Colombia has not yet been explored.

TABLE 96

Total and per capita Production of Iron Ore, 1973

Country	Total thousand tonnes	Per capita (tonnes '000)
1. Japan (1)	588	0.01
2. Colombia	439	0.02
3. Korea Rep.	233	0.02
4. U.K.	1926	0.03
5. Philippines	1414	0.04
6. Turkey	1455	0.04
7. India	22175	0.04
8. Germany F.R.	1620	0.05
9. Mexico	3113	0.06
10. Greece	792	0.09
11. Finland	583	0.13
12. Austria	1417	0.19
13. U.S.A. (3)	53236	0.25
14. South Africa	6910	0.29
15. France	15671	0.30
16. Peru	5648 (4)	0.38
17. Brazil	39380 (3)	0.39
18. U.S.S.R.	118151	0.47
19. Chile	5829	0.57
20. Norway	2540	0.64
21. German D.R.	13	0.77
22. Venezuela	14179	1.26
23. Canada (2)	30744	1.39
24. Sweden	22071	2.71
25. Australia (5)	47204	3.59
26. Newzealand	47204	3.59
27. Egypt	320	8.98
28. Poland	432	12.95
29. Czechoslovakia	462	31.73
30. Thailand	21	0.00
31. Belgium	35	0.00
32. Denmark	583	0.00
33. Italy	220	0.00

Source : *Statistical Year Book*, 1974.

Notes : (1) Including iron content of iron sand and pyrites.
(2) Shipments from mines.
(3) Shipments of usable iron ore excluding mangne-ferrous iron containing 5 per cent or more of magnies.
(4) U.S. Bureau of Mines.
(5) Beginning in 1969, 12 months ending 30th June of the year started.

TABLE 97

Total and per capita Reserves of Crude Petroleum—1971

Country	Total (million tonnes)	Per capita m. tonnes (0.00)
1. Japan (4)	4	0.04
2. Pakistan (4)	4	0.06
3. Poland (6)	6	0.16
4. Burma (4)	6	0.20
5. Czechoslovakia	3	0.21
6. India	118	0.21
7. France	12	0.23
8. Turkey	20	0.53
9. Italy	35	0.64
10. Brazil (4)	101	1.00
11. Germany F.R.	75	1.21
12. U.K.	1490	2.66
13. Chile (4)	29	2.84
14. Netherlands	39	2.90
15. Austria (4) (5)	25	3.32
16. Peru (4)	74	4.96
17. Newzealand (4) (13)	16	5.40
18. Australia (4) (5)	214	5.64
19. Denmark	33	6.57
20. Mexico	399	7.35
21. Egypt	288	8.09
22. Colombia (4)	222	9.57
23. Argentina (4)	324	13.34
24. U.S.A. (4)	4770	22.67
25. U.S.S.R. (13)	6464	25.88
26. Canada (4, 6)	1247	56.38
27. Norway	605	152.74
28. Venezuela (4)	1978	175.15
29. Libyan Arab Republic	3066	1362.67

Source: *Statistical Year Book*, 1974.

Notes: (4) Original production data in units of capacity or volume.
(5) 12 months ending 30th June of the year started.
(6) Crude petroleum.
(13) Production data include gas-condensates.

The development of the age of inventions or success of the Industrial Revolution in these countries which, barring Japan, are all situated in Western Europe, in the eighteenth and nineteenth century, depended not simply on some special and unaccountable burst of inventive genius in the European races, but on the accumulation of a sufficient fund of capital. The tools of their progress or industrialisation in the form of skills and machinery could be directly traced to the vast surplus produced by exploitation of the vast human and physical resources of the territories held in subjection. The introduction of expensive implements or processes involves a large outlay, and it is not worthwhile for any man, however enterprising, to make an attempt unless he has a considerable command of capital, and has access to large markets. Both the capital and the markets were supplied by the colonies and dependencies of European countries spread all over the world.

In the case of England it was India which largely fulfilled this role : although cotton was grown on the plains of India, textiles were woven in England. Says Brooks Adams :

> "The influx of the Indian treasure, by adding considerably to England's cash capital, not only increased its stock of energy, but added much to its flexibility and the rapidity of its movement. Very soon after Plassey, the Bengal plunder began to arrive in London, and the effect appears to have been instantaneous : for, all the authorities agree that the Industrial Revolution, the event which had divided the nineteenth century from all antecedent time, began with the year, 1760."[4]

The fact that early industrialisation in Britain owed a great deal to the slave trade also, is well-enough known. Manufactures were exchanged at a profit for slaves in Africa ; slaves were exchanged at a profit for raw materials in the Americas ; raw materials were shipped back to be processed at a profit in Britain, for sale or exchange across the world. No less a person than Nelson maintained that the British mercantile fleet could not live without the slave trade.*

"The triangular trade", points out Eric Williams, "gave a triple stimulus to British industry. The Negroes were purchased with British manufactures : transported to the plantations, they produced sugar, cotton, indigo, molasses and other tropical products, the processing of which created new industries in England ; while the maintenance of the Negroes and their owners on the plantations provided another market for British industry, New England agriculture and New Foundland fisheries. By 1750 there was hardly a trading or a manufacturing town in England which was not in some way connected with the triangular or direct colonial trade. The profits obtained provided one of the main streams of that accumulation of capital in England which financed the Industrial Revolution."

The second category of advanced countries consisted of Austria, Norway, Sweden, the U.S.A., New Zealand, Finland, Canada and

4. *The Law of Civilization and Decay*, pp. 259-60 quoted by R.P. Dutt in *India Today*, 1940, People's Publishing House, Bombay, pp. 107-08.

* Whereas in pursuance of a judgment delivered by Lord Mansfield in 1772 that the common Law did not recognise the status of slaves, some fifteen thousand Negroes brought by their owners into the British Isles were freed at one stroke, Parliament prohibited slave traffic in the country by law only in 1807 and ban on slave trade in British Colonies was voted by Parliament in 1833 (vide *Capitalism and Slavery*, University of North Carolina Press, 1944, p. 52).

Australia, that is, countries which had comparatively high physical resources relative to population density (and, therefore, no need or excuse to seize others' lands). Their own resources not only produced raw materials that fed the factories, but also food in quantities that left a surplus over rural requirements, to feed industrial workers and those engaged in capital formation. This surplus served to increase the income of rural population which initially constituted a high percentage of the total—so that they could buy industrial goods. As in the first category the case of Britain regarding exercise of political authority for gain of the metropolitan power is typical, so is the case of the United States in this, the second category, typical of how economic dominance has been exercised by these countries for their gain. Says Ronald Segal :

> "The United States, for instance, may exchange manufactures, at a profit, for rubber in Liberia, process the rubber, at a profit, in American Company plants ; and then exchange the product at a profit, for tea from Bolivia or coffee from Brazil."[5]

Switzerland and Israel are a class apart : they had neither an abundance of natural resources of their own, nor lands and labour of other peoples to exploit. While the former's economy has greatly benefited from hydro power which it possesses in an abundant measure, and exploitation of its bank deposits which, owing to its neutral policies, have been drawn from all over the world, the latter's has benefited from the technical and financial assistance it has received from the entire Jewry of Europe and America, in a very liberal measure.

None of the other countries including the USSR can be regarded as fully developed or economically advanced. All of them excepting South Korea, Pakistan, Ceylon and India enjoy the advantage of a high land or natural resources : man ratio ; yet they have not been able to make the grade : they have not reached the height of living standard or per capita income justified by their natural resources. The main reason lies ultimately in the disquality of their human factor as contrasted with the quality of the human factor in the developed countries (which, *inter-alia*, led to some of them acquiring foreign territories). There is yet another reason in the case of the USSR viz. that the release of workers from its agriculture is hampered because of low productivity of the collective farms into which the peasantry was forced by the communists against its will.

The four countries immediately mentioned above, suffer both from paucity of resources and disquality of their people. Though not yet an advanced country, South Korea, however, has made good progress recently.

5. *The Struggle Against History*, Weidenfeld and Nicolson, 5, Winslay Street, London WI, p. 47.

To return to India with whose progress alone we are concerned here, the opportunities that were available to the advanced countries like Netherlands and others (included in the first category) mentioned above, are not available to us. Ethics of the matter apart, there are no colonies or dependencies to exploit, any longer. We have arrived on the world stage at a point of time when people and resources of other lands cannot possibly be exploited, even if we would. Also, all under-developed countries are trying to make up the leeway so that, soon, there will be left few or no external markets to exploit or to buy our industrial goods.

As regards the course adopted by countries mentioned in the second category above viz. of building up heavy or large-scale, capital-intensive industries on the basis of their own resources, perhaps it would have been open to India if it had begun or been allowed to industrialise in the modern sense in earnest when the British crown took over direct control of India in 1857 when the combined population of the sub-continent was no more than 180 million, the death rate was high and the rate of population growth less than half a per cent per year, and industry itself was not, by to-day's standards, very capital-intensive. But today it is decisively closed.

The immediately preceding three tables would show that India is not so richly endowed by Nature as some of us believe : in the matter of economic potentiality or natural resources, India occupies a very low position indeed, as compared with most countries. So, we cannot spare or accumulate capital to the extent that heavy industry requires, nor can heavy industry find employment for the huge population that India carries today.

What course, then, shall we adopt to develop our economy, circumstanced as we are today ? Shall we take recourse to the methods the USSR has adopted—those of squeezing the peasantry by depriving them of their liberties, that is, through political and economic enslavement of our own people ?

Indeed, the communists claim that they alone possess the key to material prosperity of the densely-populated, under-developed countries. In proof of their claim they point to the example of Russia which according to them, was totally under-developed in 1917, but was today well within sight of an American standard of life. In the last 60 years, Russia, a defeated and backward country which had to fight a civil war and the World War as well, has become one of the two mightiest powers of the world. Russia owes all this to the new doctrine, it is asserted.

The above claim is unfounded, however. Russia was never a densely-populated country. Nor, at the time of the 1917 Revolution, was it industrially a backward country at all. In any case, not so backward as communist propagandists would like us to believe. British and French capital and technology had already set up enclaves of industrial expansion in the Czarist economy.

Says W. Woytinsky :

"Indian intellectuals in search of a road to progress have misinterpreted the lesson of the U.S.S.R. Some of them believe that the Soviets have blazed a new trail to economic progress by forced industrialization : Was not Russia as poor as India when Lenin came to power ? And is she not catching up with the United States ?

"As a matter of fact, per capita income in European Russia amounted to 103 roubles before the outbreak of World War II, its purchasing power was equivalent to more than $ 100 and probably ranged between $ 150 and $ 200 at present prices—50 to 100 per cent above the target set by the Second Five-Year Plan for India in the 1970s.

"Czarist Russia was a backward country in comparison with some of her Western neighbours, but she had the largest and most efficient cotton mills in Europe, possessed ship-yards able to build battle-ships and sub-marines, turned out locomotives second in number to those of the United States, had the largest steel bridges in the world, built by her engineers with domestic materials. Illiteracy was rapidly disappearing in a large part of Russia. The country had a network of first-class institutes for advanced technical studies. The Czarist Government was reactionery, corrupt, weak, and commanded no respect from the people, but after the overthrow of the democratic government that succeeded the Czars, the Communists came into an economic inheritance far greater than that left to India after the end of the colonial rule."[6]

So that the foundations of self-generating economy had already been laid in Russia when the Bolshevik Revolution engulfed it in 1917. Like the U.S.A., Russia also had the advantage of huge economic resources—'huge' both absolutely and relatively to population—which gave it a high potentiality for rapid industrial progress compared with most other nations in the world.

Actuated, however, by their belief in big economic units which Communism inculcates, and their desire to outstrip the West in the shortest possible time, they started building the 'biggest' and the 'most uptodate' factories, some of which were so colossal that they were not finished till 8 or 10 years later. This required a huge amount of capital which was locked up, and, thus, for all practical purposes, lost during the period. It was with a view to finding capital for these industrial giants that collective farms were established which meant enormous suffering for the masses that could have been easily avoided. The produce of the collective farms was sold in the cities or the outside world at far higher rates, the difference going

6. *India : The Awakening Giant*, Harper & Bros., New York, 1957, pp. 190-91.

towards purchasing equipment for heavy, large-scale industries. An economy of tens of millions of independent peasants could not be made to yield these compulsory deliveries, misnamed 'surplus' produce to the State.

Despite large capital outlays in agriculture, however, collectivisation damped productivity with the result that quite a laige proportion of the labour force has to be kept on land and the Soviet Union which used to export more than 10 million tonnes of wheat annually before World War I, has recently been reduced to the position of an importer of foodgrains from Canada, the U.S.A. and Australia and milk and other foodstuffs from Western Europe.

An economy on the lines of the USSR would, however, seem to have been the ideal of at least some of our Congress leaders in India also. Commending for its acceptance a resolution approved by the Indian National Congress in the second week of preceding January Prime Minister Nehru declared in the Lok Sabha on March 28, 1959, that "Ceilings, cooperatives and state trading (of foodgrains) are all correlated and should be looked at as one picture". Actually, our speed was more rapid in a sense—in the sense of our intentions. In the USSR, cooperatives which is another name for collective farming came only when the *KULAKS* had been completely liquidated—which took place some 12 years after the Revolution, as a consequence of distribution of land and imposition of state trading. Here, we covered, or decided first in 1959 and, then, in 1972, to cover all the stages in one stride. If these intentions could not materialise, it is the Constitution, rather the Opposition leaders who are to blame, not the Congress leadership or Prime Minister Nehru and his daughter who headed the Government all these years.

The present writer is not concerned with the military might of the USSR here, although even the claim that communism raises the military strength of a country miraculously, is untenable. Before and during the Second World War, non-communist Germany, comparatively a small country, was singly the mightiest military power in the world. Russia possessed about three times the human and natural resources of Germany, and more than two decades since the Revolution of 1917 had passed when German invaded it in 1941. Yet, despite its vast spaces, the USSR would have been beaten to its knees in a short time, had Germany not been engaged simultaneously by the U.K. and USA armies on the Western front and, further, had American aid in the form of military equipment like tanks and planes not been made available to her in a very generous measure under the Land-lease programmes. It was on the strength of this aid and not anything communism provided, that the USSR was able to roll back the German armies from the gates of Moscow and Stalingrad.

As regards economic growth, statistical evidence is forthcoming that the gap in the economic positions of the USA and the USSR in 1955 was exactly what it was in 1913. Communism could do nothing to bridge that gap. Mr. Warren Nutter's article entitled 'Soviet Economic Development : Some observations on Soviet Industrial Growth' published in the American Economic Review of May, 1957 includes a chart showing industrial production per head of population for Russia during the period, 1880-1955, and for the United States during 1870-1955. This chart takes 1913 as 100 and covers 37 industries. The median lag in 1955 is 56 years of growth, and the whole Soviet curve is set below the American by an amount that does not vary greatly in terms of time lag. What emerges is that the relative position in 1955 remained surprisingly what it was in 1913. The lags are not uniform, though : in some industries they are under 20 years, in others well over 50. If a fresh survey is made, Mr. Nutter's conclusion that Soviet industry in 1955 was several decades behind the USA in its output, will be found to be correct even today. While it has, in recent years, tended to gain ground in terms of total output, it has continued to lose in terms of per capita output.

According to Angus Maddison, "Output per head in the USA (1968) was twice as high as that in the USSR, productivity per worker higher still, and consumption per head even higher".[7] In fact, the living standard of most democracies in the West is far higher than that of Russia and her satellites.

According to a new study (1973) of the Soviet economy—put out by the Joint Economic Committee of the U.S. Congress—compared with the USA, Soviet economy produces only half as much, for a population that is 18% larger, but it does so with a labour force that is half as large again as that of the USA.

No longer are heard such claims as were issued proudly from the Khrushchev leadership at the start of the sixties, for example, that the Soviet Union would soon outstrip the United States in national product, and by 1980 reach a stage of material abundance to allow the experiment of true communism or the principle of 'each according to his needs' implemented at last. Khrushchev's heirs manage an economy where total national income or gross national product stood at slightly more than $ 912 billion in 1979, far smaller than the 1960 prediction for a $ 1.52 trillion economy, and more than $ 153 billion below targets that were set five years ago.

Within an economy roughly 55 per cent the size of the U.S. economy, the Soviet Union has nonetheless matched the United States almost dollar for dollar in both defence expenditure and new fixed investment. The necessary price which the Soviet Union has had to pay for their parity in these two areas, has reduced availability of consumer goods. Total consumption in the Soviet Union, despite its larger population,

7. *The Economic Growth in Japan and the USSR*, George Allen and Unwin, 1969, p. xxiv.

which in 1971 stood at $ 2,70,000 million, was only 41 per cent of the total consumption in the U.S.A., $ 7,31,000 million.

Wrote Peter G. Paterson, a former U.S. Secretary of State, in an article in the 'Span', July, 1973 :

> Whereas in 1971 the Soviet Union produced 11 per cent more crude steel than the United States and 39 per cent more cement, it produced only 6 per cent as many automobiles and only 30 per cent as many trucks and buses.
>
> The U.S. consumer is three times as likely to own a refrigerator, nine times as likely to own a radio, three times as likely to have a television set and seven times as likely to have a vacuum cleaner as a Soviet citizen. Many consumer durables—such as fully automatic washer-dryers and freezers do not seem to be manufactured or sold in the Soviet Union. Similarly, the Soviet citizen consumes much less meat than his U.S. counterpart, due, in part, to shortages of foodgrains. Hopefully, the recently negotiated deal of minimum purchases of $ 750 million worth of U.S. grain to the Soviet Union over the next three years will continue to improve this situation.
>
> On the other hand, the Soviet Union possesses substantially greater energy reserves than the United States. Its unexploited sites suitable for production of hydro-electric power are 2½ times greater than ours, its coal reserves are 350 per cent greater than ours, and its proven natural gas reserves are nearly 30 per cent greater. With respect to potential (as opposed to proven) reserves of both oil and natural gas, the Soviet Union probably enjoys an even greater advantage over the United States. In addition, the Soviet Union is blessed with large deposits of other important mineral resources ; U.S. production of nickel, platinum, manganese ore and chrome ranges from small (9 per cent for nickel) to infinitesimal (less than 1 per cent for chrome and maganese) by comparison with production in the Soviet Union.
>
> The U.S. economy is characterized by the relatively high technical sophistication of its agricultural sector ; this is not true of the Soviet economy. The Soviet Union employs more than eight time as many people as the U.S. in food production, but it uses less than half as many tractors and trucks and only three quarters as many grain combines as one finds on U.S. farms. Because of this, and somewhat less favourable climatic conditions, agricultural labour productivity in the Soviet Union during 1971 is estimated to have been only 11 per cent of the U.S. level.

The picture projected by facts and figures above is confirmed by an unimpeachable source, viz., a letter addressed to the leadership of the Soviet bureaucracy, by three Soviet intellectuals—academician Andre Sakharove, celebrated for his work on the hydrogen bomb, historian Roy

Medvedev, and physicist Valentin Tourchine.

"In comparing the Soviet economy with that of the United States", Ronald Segal writes, "these eminent intellectuals (sic) declared that 'we are behind not only quantitatively, but also saddest to say—qualitatively.... We are, simply, living in another era'. The real income of the Soviet people had in recent years only with difficulty been raised, and there were clear signs of inflation. Even Soviet educational standards, long the special pride and promise of the system, were not spared. The slackening in the development of education is particularly disquieting for the future of our country. In fact our total outlays on education are less than those of the United States and rising at a lower rate....Nor did the condition of science and technology give more comfort. The second industrial revolution has begun, and now, at the start of the seventies, we can see that not only have we not overtaken America but the gap between our two countries is widening."[8]

Ronald Segal goes on to point out that economic discrepancies in the USSR are everywhere evident : between city and countryside, between advanced and backward regions, above all, between one person and another, according to the price tag on his social function. And the existence of an elite, with standards of consumption towering above those of the multitude, is undeniable.

After sinking much capital in sputniks and ICBMs, the Russians have reached nuclear parity with the USA—but at the expense of the country's industry. With its main units reaching stagnation point Russia is badly in need of massive induction of Western, mainly American capital, particularly, to overcome the backwardness which prevails in almost all those branches of the economy which produce consumer goods. It is not without significance, therefore, that the prospect of capital loans and technical assistance figures so prominently in the USSR's signing of a non-aggression treaty with Federal German Republic in August, 1970 and an agreement for a similar purpose with USA in June, 1973. The arch-capitalist Rockfeller has opened the Moscow branch of his Chase Manhattan Bank at No. 1, Karl Marx Avenue and the Fiat Company of Italy entered into a contract to supply a huge motor car factory capable of turning out nearly 7 lakh cars every year. Talks have been held with Japan also for financial and technological assistance in exploitation of the natural gas and mineral resources of Siberia.

According to an article by the Editor, Shri Giri Lal Jain, published in the 'Times of India', dated July 28, 1976 the total debt which the Soviet Union and other Eastern block countries owe to the Western nations on account of trade and credits rose by 10 million dollars in 1975 to reach the staggering figure of 32 billion dollars—they owe eight billion dollars to West Germany alone—and is expected to increase to 40 billion

8. *The Struggle Against History*, Weidenfeld and Nicolson, 5, Winslay Street, London, WI, 1971, p. 91.

dollars by the end of the year, 1976. As regards trade : between 1971 and 1975 the Soviet Union imported 6.3 million tonnes of large diameter steel pipes, largely from West Germany, though it is the largest producer of steel in the world, 2000 complete plants from the West including the Volga car and the Kama truck factories, and consumer goods worth 48 billion dollars, which accounted for 40 per cent of its total imports. To complete the story : it pays for its imports by exports of raw materials.

Obviously, therefore, the USSR does not offer an example which India could usefully imitate ; in the given circumstances, communism is far less efficient than capitalism in raising production. Nor is there any question of taking lessons from China either. If under the sign of communism, the USSR could not significantly raise the living standard of its people despite its vast resources, China with comparatively little resources could not possibly hope to do so. Although no reliable information is available, yet if it is a success story in comparison with India or its people are better fed and clothed than Indians, then, one of the reasons may be that it has taken more than a leaf from Gandhji's teachings. Various reports from unimpeachable sources indicate that not only had Mao Tse-tung given first priority to agriculture since 1962, but had relied greatly on human labour and decentralised labour-intensive enterprises in building his country than on large-scale, mechanised projects and industries.

Further, we have before us many an example of democratic countries, ravaged and not ravaged by the Second World War, whose rate of economic growth is far higher than that of China although they suffer from paucity of national resources in the same or even greater degree than China. According to the latest World Bank Atlas, 1979, the per capita growth rate for China during the period, 1970-77 comes to 4.5, which is less than the average rate of the following eight which are not totalitarian countries and possess no large or special resources like mineral oil, etc. and fall within the definition of LDC (Less Developed Countries) : Dominican Republic (4.6), Malaysia (4.9), Egypt (5.2), Taiwan (5.5), Indonesia (5.7), Equador (6.1), Brazil (6.7) and South Korea (7.6).

So that Indians do not have to surrender their liberties in order to promote growth. It is their democratic leadership which has failed them, not that totalitarian methods have proved superior to democratic ones.

Thus, we arrive at the irrefutable conclusion that capital in a measure required for a capital-intensive structure in India could not be had, at least rapidly, through domestic savings, whether under a democratic or communistic set-up.

There was a source of capital, however, to which we could look for assistance, viz. the international market. The justification for this course has been spelt out by Western economists, Ranger Nurske and Arthur Lowis among them : Poor countries are caught in a vicious circle.

Because their incomes were low, savings were low ; because savings were low, investment was low ; because investment was low, productivity was low ; because productivity was low, incomes were low. So, India could not and, for that reason, no poor country could raise itself in a reasonable period, by its own bootstraps. The vicious circle, it was argued, in which the country finds itself caught, could not be broken—India's substantial development could not proceed—without massive foreign aid.

There was another course open, viz., as advised by Mahatma Gandhi, to build up the country slowly and patiently from below on the strength of its own resources. But Nehru would not listen. His heart was bent upon establishment of an industrial structure on the lines of the U.S.A. and the USSR and, to that end, he decided to go hammer and tongs, both for foreign capital and foreign technology as also to divert all possible domestic resources to heavy industry even at the cost of food, water, clothing, housing, education and health.

Foreign capital was welcomed, rather invited, from all possible sources. There was no country which could possibly lend us money, and was not approached, and a legislation was put on the statute book (1949) which extended an assurance to foreign investors that there would be no discrimination between Indian and foreign companies in the country. The avowed aim was to import foreign technology for absorption in India.

Nehru and his advisers entertained few misgivings about the way to set about achieving the goals. Industrialisation, more specifically investment in heavy industry, would lay the base for future increases in productivity. And the fruits of 150 years of science and technology which were unavailable to the nations of the West when they embarked on industrialisation, would help the poor nations to bridge the gap between them and the rich nations at a fast rate.

One can only say that while it is true our people were impatient and, as time passes, are getting more and more impatient, it does not follow that our leadership also should have become impatient. It should have realised that no amount of planning could force the pace of history and make up for non-existent resources or neutralize our huge population.

Referring to Prime Minister Indira Gandhi's quest for a wizard who could solve the economic problem of the country for her, a commentator wrote thus in the 'Times of India', New Delhi, sometime in August, 1973 :

> "It does not require a wizard to tell them that the Western model cannot work here because in the period of primitive accumulation in most western countries the government did not have to cope with the kind of democratic pressures that prevail here. When Britain launched its industrialisation, the voice of all those who suffered most from the ravages of primitive accumulation was muffled : that is not the case in this country. Nor does it

> require a wizard to bring home to those in power here that they do not have at their disposal the kind of total coercive machinery available to the Soviet regime in the first decades of hectic industrialization."

The experience of the USSR and other countries should have told our leaders that forced industrialisation could not bring about speedy improvement in the economic conditions of our people. "It is doubtful", wrote W.S. Woytinsky after 40 years of the Russian Revolution of 1917, "whether the per capita income of the masses of Russian people, in terms of food, housing, clothing and other material comforts of life, hours and conditions of work, and personal economic security, has risen appreciably under communist rule. It is certain, however, that the experience of the Iron Curtain countries does not support the contention that economic and social progress can be accelerated by forced industrialisation."[9]

9. *India : The Awakening Giant*, Harper and Brothers, New York, p. 190.

10

Socialism and Mixed Economy

Arising out of man's inborn longing for equality, socialism is a vague, ancient idea nurtured by many a man of vision and goodwill. The idea or ideas of socialism go back to the first half of the nineteenth century, when Robert Owen and several French thinkers* tried to find an alternative to capitalistic or free enterprise societies. Their values, of course, were partly inherited from previous philosophers. They were essentially humanitarian and enlightened. They tried to give a new content to the "fundamental equality of all human beings", perhaps, the oldest version being of a religious character and expressed as "equality before God". Later, abuses of capitalism intensified by the 'Industrial Revolution', produced a crusader in the person of Karl Marx who raised socialism to a science and a system. He claimed that socialism by necessity will emerge out of capitalism. Whether men worked with primitive tools or with modern machinery, Marx said, labour was the basis of society. Therefore, he asked how was it that the worker, the instrument of society, had been thrown to the lower rung of the economic ladder, while men who did not mix their energies with the forces of nature, that is, who did not put in any labour, occupied an advantageous position, gaining the best part of the result or product of the workers' labour? Since labour alone had power to create value, its product should wholly benefit the man who put in the labour. Money, without labour, could not create more money; what it did in the existing state of economy was to employ labour and appropriate to itself the product of that labour, paying it a meagre amount.

The amount appropriated by the capitalist or the man who supplied the money and owned the factory, is called 'surplus value' by Marx; it is over and above the amount paid to the workers in the shape of wages. Marx suggests that a just economic order will be one where the appro-

*It was an eminent French writer, Pierre Leronx, who invented the word 'socialism' as an anti-thesis to individualism in 1830s.

priator of the surplus value was eliminated, and workers got full remuneration for their labour. Who would 'appropriate' the expropriators'? The answer Marx gave was : workers themselves, by a class struggle ; the organisation of workers for a struggle was inherent in "the very mechanism of the process of capitalistic production itself".

The word 'Socialism' has the attractiveness of being delightfully vague, so that persons and parties having extremely contradictory views regarding the forms of Government, have attempted to attract respectability to their theories by attaching the word 'Socialism' to their concepts and political practices. Thus we find Hitler calling his Fascist regime "National Socialism", the Communist using with remarkable consistency the word 'Socialism' to describe a system which in its essentials and operation has little in common with what Marx preached in his *Das Kapital*. In fact, when Marx was asked to describe Socialism he deferred the attempt by promises of the definition in future volumes of his *Das Kapital*—a promise which was not kept and in none of the volumes of *Das Kapital* do we have a definition of Socialism. France's Radical Socialists are anything but radical, being one of the known conservative parties.

Socialists have gradually come to differ from Communists only in regard to the method of transfer of power. The former believe that the change from private to public ownership must be effected by democratic methods involving fair compensation and majority consent, while the latter advocate one all-embracing revolutionary act, by which the political power of the state and the economic power of capitalists would be seized and held by a 'dictatorship of the proletariat'. That may be the theory, but, in practice, the Communists do not make much of this difference. The foremost communist country in the world calls itself the 'Union of Soviet Socialist Republics'.

Largely owing to the fact that while Russia lay vanquished, the victor, Germany, could not spare troops to occupy it, the Communist party, headed by Lenin, succeeded in seizing absolute political power in the country in the name of the proletariat in 1917. This event made the people all the world over sit up and think. People under the colonial yoke saw in it a model for their own struggle for liberation, India not excluded.

Lenin's views on imperialism as a late stage of capitalism formed the main element of Indian nationalism that was easy to popularise among the educated class. As a result, our educated class tended to accept it as a political axiom that imperialism and capitalism, imperialists and capitalists, were inseparable. Further, whatever the facts, free trade and free enterprise were identified with capitalism, a conjunction that conspired to denigrate all the three. Private enterprise was, in particular, held responsible for want of economic progress.

Gunnar Myrdal quotes J.S. Furnivall as having offered a cogent comment on the line of reasoning that emerged under these influences :

> "The colonial peoples have, I think, more sympathy with Communist *ideals* because they have seen too much of capitalist *practice*. From economic individualism they instinctively react in the direction of socialism not, necessarily, though not excluding, the text-book socialism of state control over production, distribution and exchange, but of socialism as the re-integration of a society ravaged by unrestricted capitalism—or, if you prefer the term—colonialism. And, much as they dislike and fear communist methods and *Communist domination*, they will, and do, respond more readily to the claim of social duty rather than to the illusion of individual prosperity."[1]

Being staunch believers in democracy as adumberated in the Western literature and, at the same time, fascinated by the goals of the Russian Revolution, a large section of Indian political leadership dreamt of a politico-economic order under which not only nobody will be exploited by another, but everybody will be afforded an opportunity of self-improvement—a dream which provided both for democratic freedom and economic equality consistent with full employment and rapid economic growth. So, influenced largely by Nehru, they plumped for a compromise between socialism and capitalism—a 'mixed' economy in which material resources of the nation would be owned and worked partly by the state and partly by private citizens, in other words, where the private and the public sector would co-exist. That is way, perhaps, big businessmen* also can afford to believe in, or even propound 'socialism' as a practical policy goal in India.

Nehru expressed his faith in socialism thus :

> "I am convinced that the only key to the solution of the world's problems and of India's problems lies in socialism, and, when I use this word, I do so not in a vague humanitarian way but in the *scientific economic sense*. Socialism is, however, something even more than an economic doctrine; it is a philosophy of life and as such also it appeals to me. I see no way of ending the poverty, the vast unemployment, the degradation and the subjection of the Indian people except through socialism."

1. Vide *Asian Drama*, Vol. II, p. 802.

*This will be confirmed by taking a look at the list of members of the (New) Congress legislature parties all over the country (1971-77). It contains a number of ex-rulers of Indian States and big zamindars, big contractors and businessmen. Congress split in 1969 but this did not make any difference.

It is in policies laid down by the Congress and the Union Government, in pursuance of the above belief of his, that lay Jawaharlal Nehru's failure and misfortune of the country.

As early as in 1931 the important Karachi session of the Indian National Congress had adopted a resolution that the state "should own or control key industries and services, and natural resources" in addition to railways, waterways, shipping and other means of communication. Later policy declarations have been in line with the Karachi resolution, only more positive and more specific. The most important of these has been the Union Government's industrial policy resolution of 6th April, 1948, widening the preserve of the public sector. The resolution laid down that besides arms and ammunition, atomic energy and railway transport, which would be the monopoly of the Central Government, the State would be exclusively responsible for the establishment of new undertakings in six basic industries, viz., coal, iron and steel, aircraft manufacture, ship-building, manufacture of telephone, telegraph and wireless apparatus (excluding radio receiving sets) and mineral oils—except where, in the national interest, the State itself found it necessary to secure the cooperation of private enterprise. The rest of the industrial field was left open to private enterprise though it was made clear that the State would also progressively participate in this field. The word 'socialism' was not used, but it was a clear affirmation of a 'mixed' economy. No concrete steps, however, were taken for full seven years for its fulfilment.

It was at its session held at Avadi in January, 1955, that the Indian National Congress declared itself in favour of a 'socialistic pattern of society', but the term was not defined and virtually no argument was given as to why they were forswearing 'Gandhism' or in what respects it fell short as compared with socialism.

The first resolution standing in the name of Maulana Abul Kalam Azad, stated that the public sector of the economy must play a progressively greater part, more particularly in establishing the basic industries, while the private sector would continue to be important for other reasons. This resolution envisaged that planning should take place with a view to creating a 'socialistic pattern of society'. The second resolution, moved by Nehru, said that in view of this declared objective the State would necessarily play a vital part in planning and development. "In particular it will (1) initiate and operate large-scale schemes providing services such as power, transport, etc.; (2) have overall control of resources, social purposes and trends and essential balances in the economy; (3) check and prevent the evils of anarchic industrial development by the maintenance of strategic controls, prevention of private trusts and cartels and the maintenance of standards of labour and production; and (4) plan the economy of the nation in its basic broad aspects."

Supporting the resolution, Mr. Nehru said as follows :

"*I do not want State socialism of that extreme kind in which the State is all powerful and governs practically all activities.* The State is very powerful politically. If you are going to make it very powerful economically also, it would become a mere conglomeration of authority. I should, therefore, like decentralisation of economic power. We cannot, of course, decentralise iron and steel and locomotives and such other big industries, but you can have small units of industries as far as possible on a cooperative basis, with State control in a general way."

During his speech he used both the terms, 'socialism' and 'socialistic pattern' indiscriminately. He asserted that "a socialistic pattern is socialism. Do not imagine that it means anything other than socialism.... Some people seem to make fine distinctions among socialistic pattern, socialist pattern and socialism. They are all exactly the same thing without the slightest difference."

A year after, at the open session of the Congress in Shaheednagar, Nehru said on February 2, 1956 that "through the Five-Year Plans India would slowly demolish the 'walls' of poverty and as we begin to put through the various phases of the Second Five-Year Plan these walls will begin to fall away and greater scope will be available for making rapid progress for the establishment of a socialistic pattern of society". Asked to define his brand of socialism, Mr. Nehru said : "I do not see why I should define socialism in precise, rigid terms when it is something which should not be precise". No wonder if the economic policies of our Government have never been precise even after the death of Mr. Nehru.

The Industrial Policy Resolution of 30th April, 1956 which is incorporated in the Second Five-Year Plan (1956-61), declared :

"The adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services should be in the public sector. Other industries which are essential and require investment on a scale which only the state, in present circumstances, could provide, have also to be in the public sector."

As the resolution itself said, it was a mere 're-statement' of the resolution of April 6, 1948.

Commending the Second Five-Year Plan to Lok Sabha's acceptance on May 28, 1956 and knowing that there was no trace in it of any effort at refashioning Indian society on a socialistic pattern, Nehru took an impregnable defensive position : "I do not propose to define precisely what socialism means...because we wish to avoid rigid and doctrinaire thinking....But, broadly speaking, we mean a society in which there is equality of opportunity and the possibility for everyone to live a good life. We have, therefore, to lay stress on equality and the removal of disparities."

Concluding the debate the next day, he denounced the seizure of private industry in the following words :

> "May I say here that while I am for the public sector growing, I do not understand or appreciate the condemnation of the private sector. The whole philosophy underlying this Plan is to take advantage of every possible way of growth and not to do something which suits some doctrinaire theory or imagine we have grown because we have satisfied some text-book maxim of a hundred years ago. We talk about nationalisation as if nationalisation were some kind of magic remedy for every ill. *I believe that ultimately all the principal means of production will be owned by the nation*, but I just do not see why I should do something today which limits our progress simply to satisfy some theoretical urge. I have no doubt that at the present stage in India the private sector has a very important task to fulfil, provided always that it works within the confines laid down, and provided always that it does not lead to the creation of monopolies and other evils that the accumulation of wealth gives rise to. I think we have enough power in our laws to keep the private sector in check. We are not afraid of nationalising anything."

Agriculture, with the exception of large plantations, as also small-scale industry and handicrafts were supposed to remain in the private sector and to be strengthened. Cooperatives were relied upon to combine the benefits both of decentralisation and economies of scale in these spheres. The resolution on cooperative farming passed at the Congress session of 1959 and declarations that were made during the period 1971-73 of the intention to establish State or joint farms on surplus lands available on imposition or lowering of ceilings, would, however, seem to indicate that the Congress leadership would very much like to nationalise land also if it could. Prime Minister Jawaharlal Nehru had, true to the faith, often given expression to his view that private ownership of land had no place in a socialist society and, it would seem, had circumstances allowed, he would not have hesitated to do away with it altogether. Like all socialists, as in industry so in agriculture, he believed in big units. That is why he made the Congress pass a resolation in favour of cooperative farming, and even toyed with the idea of State farming.

During his speech in Lok Sabha on the subject of cooperative farming, Pt. Nehru declared as follows on March 28, 1959 :

"Of course, the House will remember that we have said that the ownership of the land will continue. Some people say that this is either a ruse, or even if we mean it, we will not be able to stick by it. I do not know; how can I say about the future? This concept of ownership is a peculiar concept which has changed throughout the ages. The House knows Acharya Vinoba Bhave thinks there should be no ownership of land at all. There it is : I respect it and I should be very happy, indeed, if that was so. But I do not think it can be so today....The whole concept of ownership is changing and yet we are sticking to ownership by sitting on a square yard of land and being proud that this square yard is mine and nobody can take it.... In the cities there used to be roads privately owned, bridges privately owned, all kinds of things. Now, a road has become a public, municipal property, a bridge has become municipal or public property, public utilities and so on. Railways and so many things have become public property. The idea of private ownership changes and the public and the individual benefit by it. So, this changing society changes its ideals about these basic forms of ownership. That will happen. One should not be afraid of it. In fact, one should welcome that, provided it leads to the objectives we are aiming at."

'Public utility' is a means or an organisation rendering a service which is essential to the life of some or all members of the community. Land is certainly a utility, but it does not follow that the community can usefully exploit it jointly or in common, just like a road, a bridge or a railway. Unlike road, etc., land is a means of production and produces more by individual devotion than by joint operation. This Pt. Nehru failed to realise.

Speaking in the Lok Sabha on December 11, 1963, Pt. Nehru admitted that, "like many other words, socialism had become rather a vague word", and went on to declare :

"We want to plan for a socialist State. We want to plan for equality of opportunity for everybody in India, and we. want to do all this within the democratic structure of the State. I think that we shall succeed. I cannot say how long it will take us.

"Meanwhile, naturally, the major problems for us are to increase production ; only then can we supply the goods that people want, and *keep an eye on distribution* so that it should not result in heavy accumulations on the one side and lack of them on the other. These are the broad approaches. We are not tied up to any doctrinaire system of socialism. But these are the broad approaches which I think are fundamental to socialism."

At its Bhubaneswar Session in January, 1964, the Congress Party defined its objective as a "socialist State based on parliamentary democracy".

The reader has already seen that the hare of socialism was formally started at the Avadi Session of the Congress in January, 1955, but the Congress leaders do not yet seem to know what exactly they have in mind. Nehru himself, through all his years of office, was never willing nor able to indicate the precise path or paths along which he would lead the country to the objective which he had set before it.

Nobody could definitely say whether Nehru was a scientific socialist or a vague humanitarian, whether he would have liked all means of production, big or small, to be taken over by the Government, or he would not. As in so many other matters, he could be quoted on both sides. The same is true of Smt. Indira Gandhi who swears by her father.

In view of the need to conciliate public opinion, the New Congress (led by Prime Minister Indira Gandhi) made a categorical declaration in its election manifesto issued in January, 1971, that, subject to measures which will serve to prevent concentration of economic power and wealth in a few hands, "it has no intention of abolishing the institution of private property". On the other hand in order to emphasise the 'socialist' character of her policies, she declared a year later in Bhubaneswar that "*the thinking of the Communists and the Congress was the same in domestic and foreign policies*".[2]

Addressing the National Development Council on May 31, 1972, Smt. Indira Gandhi stated that "there must be some kind of a revolution in our thinking and action" and then indicated the directions in which this revolution should take place by asking a few questions : "Can we still continue to function with the profit motive ? "Can the acquisitive spirit have a place in our present circumstances ? Can we still go ahead with the Western competitive sort of society ?"

Faced, however, by criticism of the working of the public sector, she has declared at public functions, time and again, that socialism did not mean nationalisation of all industries and that the Government would nationalise a particular industry only when it was essential. In Gandhinagar (Gujarat), on October 9 and 10, 1972, she is reported to have exploded the myth, as the press put it, that "nationalisation by itself was a socialistic step".

Intervening in the Lok Sabha debate on the President's address, on February 27, 1972, Prime Minister Indira Gandhi explained her concept of socialism for India thus :

2. The 'Times of India', dated Feb. 10, 1974.

"My socialism does not envisage the Government doing everything. We neither accept this, nor do we desire this. What we do want is a climate of equality of opportunity in which the vast millions can help themselves. Our socialism is not co-terminous with nationalisation. Where nationalisation is necessary for better running of anything or for public good we shall not hesitate to do so. We do not believe that there should be nationalisation merely for the sake of taking over something."

At the Calcutta session held in the last week of December, 1972, she cautioned Congressmen against talking of text-book socialism, and added : "Our problems are our own ; so should be our solutions".

Speaking at AICC in New Delhi four years later, Smt. Indira Gandhi said on May 30, 1976 :

"Socialism could not be learnt by reading but by dirtying one's hands and working in the field, by working with the people. While pointing out that she did not believe in any 'ism' she said they had adopted socialism because that was the closest phrase to what they wanted to do for the people.

"Socialism like democracy after all meant different things to different people all over the world. For us socialism meant bettering the life of the people of India. This could not be done without the State having economic power."[3]

Gandhiji had warned the country in 1934 against the State developing into a leviathan, which it would under socialism, in the following words :

"Self-government means a continuous effort to be independent of Government control whether it is foreign Government or whether it is national. *Swarajya* Government will be a sorry affair if the people look up to it for the regulation of every detail of life.

"A nation that runs its affairs smoothly and effectively without much State interference is truly democratic. Where such condition is absent, the form of Government is democratic only in name.

"I look upon an increase in the power of the State with the greatest fear because although while apparently doing good by minimising exploitation it does the greatest harm by destroying individuality which lies at the root of all progress."[4]

A year later, Gandhiji went on record that while in his opinion the minimum number of large-scale projects or industries that we will inevit-

3. The 'Indian Express', New Delhi, dated May 31, 1976.
4. 'Amrit Bazar Patrika', Calcutta, dated August 2, 1934.

ably have to have must be either owned or controlled by the State, he was opposed to public ownership of property as a rule. He said :

> "What I would personally prefer would be not centralisation of power in the hands of the State but an extension of the sense of trusteeship, as, in my opinion, the violence of private ownership is less injurious than the violence of the State. However, if it is unavoidable, I would support a minimum of State-ownership."[5]

Planning from the top down, which socialism necessarily involves, undermines freedom because it requires people to obey orders rather than pursue their own judgment. Further, it is inefficient because it makes impossible the use of the detailed knowledge stored among millions of individuals. Whereas planning from the bottom up, which the economy of Gandhi's conception implied, enlists the interests of each in promoting the well-being of all and, thus, subserves true democracy.

Of course, the Government has a role to play, viz., in providing a stable legal and monetary framework, enforcing contracts, adjudicating disputes and protecting us from coercion by our fellow-citizens.

But as in many other matters Gandhiji's voice was not heeded, with the result that the experiment of nationalisation or establishment of industries in the public sector has emerged as the greatest road-block in our way to economic growth.

5. 'An Interview with Gandhiji', 'Modern Review', October 1935.

11

Public Sector

The term 'Public Sector' is generally used to refer to the whole area of Government outlay—both investment and expenditure—whether through public undertakings or through departmental agencies, in the discharge of its governmental functions. However, in common parlance, 'public sector' has come to mean the operations of the Government through public undertakings, which may be industrial as in the case of the big steel complexes, services as in the case of the Life Insurance and Banks, or trading as in the case of the S.T.C., M.M.T.C. etc. The origin of the public sector of the latter type could be traced to mid-nineteenth century when it was thought that to achieve Socialism public ownership of means of production should be the first step. When some of the university and night-school intellectuals were won over to the Fabian doctrines of the inevitability of gradualism advocated by Bernard Shaw and Beatrice and Sidney Webb, the Labour Government in Britain started on a sweeping programme of nationalisation of some of the principal industries of that country like electricity, transport and gas. The main idea in this nationalisation programme was to put an end to the exploitation of workers. Another argument on which public ownership of means of production was sought to be justified was the prophesy of Karl Marx, who, building up a thesis of surplus value on the basis of a combination of German Hegelian philosophy, French Socialism and English political economy, declared that laws of motion of capitalism' would bring in the downfall of capitalism and the triumph of Socialism. According to him, falling rate of profit, the law of immersization and pauperization of the working class, inequality under capitalism giving rise to a protest of the proletariat, the struggle of the capitalistic class for survival by integration and diminution of competition, formation of monopoly capitalism and intensification of business cycles would ultimately lead to a sudden violent revolution. However, even in 1900, i.e., within three decades of the prophecy the world witnessed that wages were *not falling* but were rising, and the State, operating the Keynesian techniques, reduced unemployment and staved off business cycles. Admirers of Marx had to beat a hasty retreat but, unwilling to accept it, chose to deny the facts or gave their own version of what Marx had thought. For example, like Esuard Bernstein, Marxism was interpreted as evolutionary socialism of the Bernard Shaw and Webb type, or, like Lenin, admitted that a privileged stratum of workers could themselves become bourgeois and share in the exploiters's swag, but affirmed that these renegades to the proletariat were simply living off the exploitation of colonies outside the metropolitan centres of Europe and North America.

When the Britishers left India they left an administrative steel frame which, though justly praised for its grip over the law and order situation, was ill-equipped to act as a welfare instrument. Therefore, when suddenly Independence dawned and Nehru took over the reins of administration these urban-oriented bureaucratic elite with an abysmal ignorance of the conditions of the vast majority of the dumb millions of India living in the villages, fed by and bred upon the 'Oxbridge' theories of Western economics, had to respond to the call for speedy growth. They quickly turned to the ready-made theories promising a higher GNP and imagined that public ownerhip of industries would generate the surplus the country needed. While the First Plan was under implementation, the pursuit of socialistic pattern of society was accepted by Parliament as the objective of social and economic policy. It is in this context that the 1956 resolution declared :

> "The adoption of the socialistic pattern of society as the national objective, as the need for planned and rapid economic development required that all industries of basic and strategic importance which are in the nature of public utility services should be in the public sector. The other industries which are essential and require investment on a scale which only the State, in the present circumstances, could provide, have also to be in public sector. The State has, therefore, to assume direct responsibility for the future development of industries over a wide area."

The resolution laid stress on industries of basic and strategic importance, industries which are in the nature of public utility services, industries which are essential and require investment on a scale which only the State could provide. But having thus solemnly laid the boundaries of State entry into the industrial sector the Congress Government quickly overran the boundaries and got hold of any industry or undertaking that was lucratively attractive which could be used for purposes of distributing patronage, and lassoing the big industrialists. Thus, besides Mining and Minerals, the public sector expanded into textiles, sugar, consultancy, financial, trading, electricity and electronics, insurance etc. This indiscriminate expansion has resulted in a total investment of Rs. 15602 crores in public sector undertakings as on 31-3-1979.

As has already been pointed out, no one has yet, beginning from Marx and ending with Mrs. Indira Gandhi, defined what socialistic pattern of society means. Ironically, while defining the word 'Socialism' the Shorter Oxford Dictionary, 3rd Edition, p. 136, gives the example of the usage as follows :

> "the worst of all socialistic plans is that all have within them a damning desire to shirk work."

This is what has acually happened in India.

The demand for public ownership of factories and other means of production in mid-nineteenth century, in pursuit of socialism, was raised mainly in order to put an end to the exploitation of workers who possessed no right of vote, no right to strike, no right to form an association and no safeguard at all against arbitrary dismissal. Also, it was thought, public ownership of the factory will raise the status of the workers and usher in a more democratic and egalitarian society than at present. Further, a factory will be administered more efficiently once it was operated by the State in public good than previously when it was managed by a capitalist in his own interest.

Now, so far as the first objective was concerned, it is no longer relevant. The prophecy of Karl Marx regarding increasing proletarisation of the industrial workers has not come true. Whatever else may have or may not have overtaken the conventional working class in the capitalist countries, liberal capitalism in Western countries has been able to afford a flow of consumer goods so substantial and steady as to assign conditions of popular poverty to the limbo of an age as different to the present as the one that upheld the divine right of kings.

Real earnings have not diminished in proportion as the use of machinery and the division of labour have increased. Rather, over extensive areas of industry they have risen so far as to wash away many of the traditional demarcations between working and middle classes. Popular poverty still persists, but it is a poverty different in kind from the poverty of the Marxist proletariat. It is what may be termed relative rather than absolute poverty. In India workers of most of the large-scale industries in the private sector receive wages and other benefits that place them right in the top 10 per cent income bracket of our people.

While the average worker in the US earns about Rs. 5,000 a month, owns a home and probably two cars, his counterpart in the socialist countries spends more than 60 per cent of his earnings on buying the basic necessities of life, like food and clothing.

As regards the workers' exploitation, abolition of private property alone, which the public sector or socialism implied, could not possibly lead to an end to it. The problem of checking the bureaucracy remained and, because human conduct is involved, shows little or no signs of solution. If labour relations in many of the big public projects in the country are so messy, it is because the hierarchy of bureaucratic power is far too remote from the worker. Nor has public ownership or nationalisation been accompanied by a strengthening of the worker's identification with the plant or with the job to be done. Even with the support of powerful trade unions in all the nationalised industries, the individual employee continues to feel that he has no real control over most of the circumstances of his working life, and has merely been transferred from one set of bosses to another. "From the stand-point of the employee, it is going to make less and less practical difference to him what his country's official ideology is and whether he happens to be employed by a Government or a commercial corporation", said Arnold J. Toynbee long ago, in 'Harvard Business Review', Sept.-Oct. 1958.

As regards the bringing about of a more egalitarian society and the curbing of private monopolies which was sought to be achieved through public ownership, it was discovered that the objective could be achieved by other methods, such as taxation, price control, quality requirements, social legislation like old-age pensions, sickness benefits, etc. etc. and the countervailing power of trade unions. In the UK and the USA the gap between the rich and the poor has been greatly narrowed during the last quarter of a century by resorting to those methods. Whereas in India where more than 50 per cent of the industrial capacity is now owned by the State, the gap has greatly widened.

The Parliamentary Committee on Public Undertakings, in its report for the year 1971-72 had referred to the view of representatives of public undertakings that the public sector had not been effective enough to check concentration of wealth in private hands. The committee points out that so far even the derivative advantages accruing from the setting up of public enterprises have gone mainly to a small section such as contractors, distributors, suppliers of raw materials and big industries.

So far as efficient management is concerned the performance of the public sector is disappointing in the extreme. Inasmuch as the Government has not yet discovered a psychological equivalent to private profit as the source of enthusiasm, energy and enterprise, Government organisations, whether in the developed or under-developed countries, have not been found suitable for conducting industrial enterprises in an efficient manner.

The worker does not automatically work harder for a Government than for a private employer. The hope that the very act of public ownership would bring about a change in the attitude of the worker, and thus usher in a new era of industrial relations, has not been realised. The authors of the nationalising legislation sincerely believed that workers would be more content, loyal and industrious when the State became their employer. The management of public undertakings, however, soon found that the attitude of labour therein was no different from that in the private sector.

The attitude of the workers is the main explanation for the failure of Soviet workers to produce what the system promises and needs. "According to Karol", says Ronald Segal, "indiscipline at work is officially estimated to cost the Soviet economy the loss of seventy-two million working days a year. The rate of absenteeism is not even evaluated in statistics, so as to avoid 'causing alarm'. And productivity in certain industries is so low that the workers seem to be practising the go-slow technique, as in the countryside the peasants seem to pursue a sort of passive resistance."[1]

Labour trouble has plagued virtually all big public sector enterprises in India ever since their inception, resulting in heavy losses to the nation. 'Lokudyog', a Government publication on public enterprise said in an editorial some time ago that "irresponsible demands galore and endless inter-union rivalries have been the bane of quite a few public sector enterprises, some of the largest in the public sector".

Rajni Kothari wrote thus in the 'Times of India', dated April 24, 1972 :

> "Everyone is pledged, for instance, to raise production and productivity. But there is never a whimper of protest when the workers in Durgapur openly threaten sabotage, cook their meals by the hundred on the shop floor, pilfer materials and components to sell them back to the plant and resort to all manner of devices to claim over-time. Political parties of practically every hue work among them. But none has the courage to call them to order."

Though the larger part of the blame may lie at the door of the worker, he alone is not responsible, however. Economic power in private enterprise is now enjoyed by managers or technocrats rather than proprietors. The exercise of power by these technocrats is hardly affected by the transfer of an enterprise from private to public ownership. Nationalisation of a private enterprise does not bring about any appreciable change in their outlook. Salaries, pensions, status, power and promotion continue to be the operating incentives. So that, although in theory managers of public enterprises in socialist countries work in public interest, the reality is very different.

> "It is not surprising, therefore, "Dr. E.F. Schumachar points out in his book, *Small is Beautiful*[2]," that many socialists in the so-called advanced societies, who are themselves—whether they know it or not—devotees of the religion of economics, are today wondering

1. *Struggle Against History*, Weidenfeld and Nicolson, 5 Winslay Street, London WI, 1971, pp. 94-95.
2. Sphere Books Ltd., 30/32 Gray's Inn Road, London, 1977.

whether nationalisation is not really beside the point. It causes a lot of trouble—so why bother with it? The extinction of private ownership, by itself, does not produce magnificent results : everything worthwhile has still to be worked for, devotedly and patiently, and the pursuit of financial viability, combined with the pursuit of higher social aims, produces many dilemmas, many seeming contradictions, and imposes extra heavy burdens on management."

"If the purpose of nationalisation is primarily to achieve faster economic growth, higher efficiency, better planning, and so forth, there is bound to be disappointment. The idea of conducting the entire economy on the basis of private greed, as Marx well recognised, has shown an extraordinary power to transform the world."

Not only does State ownership lead to inefficiency but also to corruption, particularly in the conditions of our country. Poverty makes nepotism and favouritism in getting contracts both more tempting and more culpable than in a rich country where jobs are plentiful and business is easier to come by.

In the public sector undertakings of our country, the situation has, *inter alia*, been bedevilled by the patronage dispensed arbitrarily by political leaders and their blatant efforts at playing to the gallery and pushing up to top management level the so-called 'committed' elite devoid of business acumen and requisite managerial skill who enjoy their assignments 'smug as a bug in a rug', secure in the knowledge that they would not be held accountable for the losses.

Corruption is as much a fact of everyday life in the senior rungs of the managerial and engineering services of the public sector as in the private sector. If most of the country's electricity-generating plants are today running at far below their capacity, it is at least partly due to the systematic trifling of public funds by the men-in-charge. Sharevathy, Patrathu, Iddiki. to name but a few, have already passed into the political vocabulary of the nation as adjectives for 'scandal'. The mythology of nationalisation ignores the fact that Indians, whether occupying positions of responsibility in the public or the private sector, come from more or less the same social strata and with the same make up of ethical fibre. If there are tax-dodgers and hoarders in the private sector, there is no lack of bribe-takers and other felons in the public sector and the civil services.

In fact, selfless men of outstanding ability devoted completely to national interest—men who will manage public business with the same prudence as they would manage their own—are not numerous in any society, whether socialist or capitalist. Substitution of the profit motive, on which capitalism relies, by ideological enthusiasm or police supervision, on which socialism or communism relies, to stir individuals or groups to productivity, has proved too transient or too expensive.

Late President Tito, for instance, had been gravely concerned over the way managers in his country had amassed private fortunes and built palaces in towns and cities and luxurious *dachas* on the beaches. And the story was not very different in centrally-controlled enterprises in other communist countries.

As a British White Paper had said : "The central problem in evolving an acceptable relationship between the Government and the nationalised industries has always been how best to reconcile the boards' need for sufficient freedom to manage the industries with the Government's legitimate interests in them."[3]

For most socialists the purpose of socialism is the control of productive enterprises by the society. For democratic socialists this means the legislature. None, or not many, seek socialism so that power can be exercised by an autonomous authority. Yet, this is where power must reside. And this is true not only of small decisions where delegation might be expected, but of great ones where Parliament might reasonably be expected to have a voice. Great Britain which had, following World War II, committed herself to limited socialism under parliamentary auspices, had soon to recognise the need for autonomy for the nationalised industries. If the minister were to exercise informed judgment, he would need the help of a staff. Responsibility would thus be removed from the firm to the ministry. The cost in time would also be high. Only if such parliamentary interventions were excluded, could the firm act with responsibility and promptly on decisions requiring specialised information.

In a number of new or under-developed countries, however, for example India and Ceylon, the path forsworn in the British experiment, viz., that of direct parliamentary control has been tried. It is the Parliament which has the right to examine budgets and expenditures, review policies and, in particular, to question management through the responsible minister on any and all actions of the corporation. But neither of the two arrangements has proved satisfactory. Where autonomy has been granted to the nationalised industries, public boards or corporations have tended to exercise power without responsibility and where the nationalised industries are directly accountable to Parliament, the evils of bureaucracy—its slowness, waste and corruption—multiply in direct proportion to the distance at which the centre of authority is situated.

The socialists in India and other countries like Ceylon have encouraged workers and consumers to appropriate the surplus on which expansion and growth of the national economy depends and without which there will be

3. *The Nationalised Industries*, Cmnd. 7131, HMSO, 1978, para 3.

stagnation. The basic realisation has not yet clearly emerged that if welfare is not linked with production and surplus, it becomes alms-giving for ever, that all welfare must come from surpluses and that if one bothers about equality and welfare at the cost of efficiency and surplus, one soon gets to a situation in which there is neither surplus nor welfare for socialism.

The sharp divergence in approach of the Finance Ministry and the economic ministries which manage the public undertakings in regard to criteria for assessing the profitability of a public enterprise was brought out in the report of the Committee on Public Undertakings presented in Lok Sabha on Sept. 5, 1973.

In evidence before the committee the Finance Ministry had emphasised that the profitability of a firm should be the 'dominant' concern, interest should be an 'inescapable' charge on gross proceeds, and the contribution made to the public exchequer as excise duty is merely a transfer payment and not an addition to the real income. Further, that, broadly, a trading company should pay dividend between 10 and 15 per cent, and a manufacturing concern, between 6 and 12 per cent.

The Finance Secretary in a note stated that "if an undertaking goes in the red as a result of interest charge on loans, it cannot be said to be making a profit but for interest payment".

Pointing to statements often made by responsible Government leaders supporting the view that public sector enterprises are not here for making profits, Dr. B. S. Minhas an ex-Member of the Planning Commission says as follows :

> "The Commission have already seen the necessity of an adequate rate of return being earned by commercial and industrial undertakings in the public sector; however, they have yet to convince the politicians of this necessity. The Commission have indicated that the industrial and commercial undertakings in the public sector should aim to earn a rate of return of 15 per cent on employed capital. The point to make sure is that such returns are not earned merely on the basis of their exercise of monopolistic power and by adding this margin in their full-cost pricing policies. Efforts should be made to see that they are competitive as well as efficient in their operations."

Article 28 of the election manifesto of New Congress issued in January, 1971 also went on to say : "Industries in the public sector are owned by the people. They must be organised and run in such a way as to create resources for further investment. The country, therefore, has the right to demand of management and workers' dedicated and disciplined work, in the fruits of which they will have the share."

In actual fact, however, a paralysing belief has been generated in the Congress or Socialist circles in the country that success is a matter of faith, not of hard and honest work.

On the contrary, without adequate or reasonable profit, no business, public or private, can survive for long. The size of the profit or surplus created by a plant is, in fact, the only measure of its efficiency except where the price of a product is kept uneconomically low in the interest of the poorer consumer. In the opinion of the late Prime Minister of the USSR, Mr. Kosygin, to appraise the efficiency of an enterprise it will be better to use the profit index, the index of cost accounting. The size of obtained profits characterises, to a considerable extent, the contribution made by an enterprise to the overall national profit which is used for its expansion or production and the raising of the people's wellbeing.

According to the pure theory of socialism, public sector industries must make even greater profits than private enterprises. If the public sector was not financed by its surpluses, including budget surplus, it would have to be financed by borrowing from the private sector. This meant that the expansion of real property under public management was matched by equal expansion of public debt owed by private persons—private profit with public control of assets.

This was not consistent with socialism, an ideology which required a reduction in private wealth.

The central maxim of the industrial policy laid down by Jawaharlal Nehru and followed by the Government of India till date, is that, in view of the shortage of capital in the country, the first need is to maximise the surplus over the current wage bill which is available for reinvestment. The choice of capital-intensive techniques of production follows logically from this prescription. It has been argued that, although employment of labour-intensive techniques will normally yield a higher immediate output, yet the surplus available for re-investment being smaller, the rate of growth, both of output and employment, will also be, in the long run, smaller. By contrast, although capital-intensive techniques will yield a lower immediate increase in output, they will ultimately lead to a higher growth rate.

Democratic socialism which is the main plank of our political elite is, however, neither socialism nor democracy. As the well-known columnist Durga Das vouchsafed, Jawaharlal Nehru had once confided to a former Union Minister in desperation :

> "Our democracy makes it difficult to impose the Russian type of discipline. And our socialism prevents us from providing the incentive for production."

Inasmuch as the public sector enterprises in which huge funds have been invested, are owned by the whole society, and not by any particular person or persons, so it is the interest of nobody in particular, whether a minister or a manager, to make a success of them. Further, inasmuch as we believe not only in socialism but 'democratic' socialism, there is no question of coercing any worker to give his best to the enterprise. He enjoys many a fundamental right under the Constitution, which every political party is anxious to safeguard and which he himself can enforce by resort to a strike, but there is no corresponding duty cast on him by the Constitution or his own conscience to which any political party will call his attention or which the Government may enforce. Besides, he has a 'precious' vote. Moreover, the Government has also to prove itself an 'ideal' employer. Whereas in the USSR, even a Minister can be fired without much risk and the worker possesses no right to strike nor has his vote much value.

It is this dilemma between socialism and democracy that has to be solved some day, and the sooner the better. The sooner they realise that totalitarian planning within the democratic system is bound to fail, the better for the country. The Swatantra Party had not aired a purely partisan view when it stated in its election manifesto as early as in 1960 that "in India, where the ruling party has forsworn, on the one hand, a free market economy, and, on the other hand, is not qualified for a totalitarian dictatorship, there is the danger of falling between two stools".

If the dilemma is solved in favour of the orthodox type of socialism or the Russian brand, the result will be found to be far from satisfactory. Without going into a detailed discussion we may point out that "even in wholly new factories bought from abroad, productivity in the USSR is lower than in their foreign prototypes, with as many as eight times the number of workers employed, to achieve the same output".

Several years ago, economist Y. L. Manevich found that "most Soviet machinery plants employ 30 to 50 per cent more workers than similar plants in the major capitalist countries. Japan and West Germany require only one-fourth to one-third as many designers and researchers as we do to develop and produce comparable amounts of new machinery". He added that surveys show that on an average, "workers spend only 50 to 70 per cent" of their paid time actually on the job.

According to Moscow's own figures, Soviet uses 80 auxiliaries for every 100 basic workers, compared with only 38 per 100 in the USA and the productivity of the auxiliaries in Russia is only a quarter of what it is in the USA.[4]

There is yet another factor which falls for consideration of socialists, particularly, in the conditions of our country. Mainly as in Burma, Ceylon and Chile[5], with the take-over of all major industries and public

4. *Struggle Against History*, p. 94.
5. The Chilean experiment in democratic socialism came to grief on September 11, 1973 when Dr. Allende's regim was over-thrown by a military junta. Significantly enough, our Prime Minister herself, in a speech at the AICC session held in New Delhi on September 14-15 drew a parallel between the situation in Chile and India.

services and disappearance of the private mill-owner or capitalist, it is Government's economic bureaucrats who have to face irate workers and consumers. Prime Minister Indira Gandhi told her party workers in New Delhi on February 1, 1973 that nationalisation was not the panacea for all the ills. "In the beginning, people sent congratulatory messages for take-over of a particular sector ; later, they started forwarding demands."

One will find that there is no criterion of nationalisation at all. All sorts of industries have been taken over. Even more than 100 textile mills which were considered to be 'sick', that is, insolvent, have been taken over. Mining industry was nationalised because it uses natural resources, but then every industry using river waters, does. Nobody knows what the "commanding heights of the economy" which Nehru and his daughter set out to capture, are.

Besides the 'commanding heights' argument, Nehru often talked of the desirability of taking over all the 'basic' industries in the public sector. But he never defined what the qualification 'basic' meant.

According to Professor P.T. Bauer, the concept that the 'basic' industries are, so to speak, rail tracks on which the rest of the economy rolls forward, is altogether baseless. There are no such industries in real life. When an infant grows to manhood, its growth is all-round and simultaneous. It is not as if, in this growth process, any 'basic' parts of the body take priority over other parts or the rest of the body.

When persisting shortages appear in any sector of the economy, whether due to exchange control or investment control, the industry concerned becomes 'basic' temporarily in the sense that it impedes the progress of other industries depending on it, until the shortages disappear through the use of substitutes, increased domestic production or imports.

Basic industries, in the sense of their being a major source of employment and income, are not the same set of industries for all time. Thus, agriculture was the basic industry in the USA before World War I, manufacturing industries became basic thereafter, and engineering industries assumed the pride of place subsequently. Who can tell what the basic industry of the USA may be in the twenty-first century ? Currently, the basic industry in India is agriculture, not steel.

The functional inter-dependence of individual enterprises and sectors of production is a common characteristic of all economic activity ; it is not unique to the so-called 'basic' industries. It is not as if the final output of these industries alone provides the basis for the working of other enterprises or productive sectors. Such inter-dependence is more or less universally true of virtually all productive industries.

By the way, it is agriculture alone which yet remains out of the grasping tentacles of the Government, though not for any want of desire on their part. Had the 'socialists' had their way, India would have starved to death long ago.

We propose to refer here, in brief only, to the working of three public enterprises—banking, steel and coal.

Much has been made of the nationalisation of banks as providing a panacea for many a financial ill from which our people, particularly the lower classes, suffer. Mrs. Gandhi declared that bank nationalisation marked a major step towards what she called "control over commanding heights of the economy". But, within two years, the then Finance Minister, Mr. Chavan confessed in the Lok Sabha that results which the Government expected from the nationalisation of banks had not materialised. The talk of providing credit to the small man without insisting on security, has proved a moon-shine as anybody with the faintest experience of administration could easily have foretold. On the contrary, the standard of efficiency of these banks has gone down greatly. Nationalisation has meant only one thing for the employees, viz., less work-load and a higher pay packet.

Addressing the Bankers' club in Madras on July 20, 1975 the Reserve Bank Governor confessed that "customer service by the banks has deteriorated in the contex of the very high wages being paid in the banking sector". Referring to the unusual militancy of the unions, he said : "As a result there has been an alarming rise in over-time payments". The then Finance Minister, Mr. Y.B. Chavan had earlier admitted on the floor of Parliament on October 5, 1974 that the quality of service to customers had "somewhat deteriorated". He had disclosed still earlier that an amount of more than four crores of rupees was paid as over-time allowance to the employees of the nationalised banks from January to June, 1973. Frequent agitation, slogan-shouting during working hours and lack of cooperation with the management in completing normal work were the major causes of this shocking state of affairs.

During the year, 1980, the amount of over-time allowance paid to employees of nationalised banks amounted to a huge sum of Rs. 30.8 crores.

According to the annual report of the Reserve Bank of India for the year 1972, the increases in expenses of the nationalised banks (Rs. 59 crores) outpaced their earnings (Rs. 58 crores). There was a lower rate of growth in earnings from interest and discount as compared to 1971. The profits declined by Rs. 1 crore to Rs. 7.6 crores from 8.6 crores in 1971.

Opposition members in the Rajya Sabha alleged on March 3, 1981 that bad debts amounting to Rs. 50 crores had been written off by the nationalised banks to favour some businessmen.

Mr. Prakash Mehrotra [Congress (I)], who asked the original question, even alleged that the banks were working in 'collusion' with business houses in swallowing the public funds. The members sought a list of the bad debts of each nationalised bank and the names of the defaulting parties.

Mr. Mehrotra was supported by Mr. Kalyan Roy (CPI), who referred to the revelation by the All-India Bank Employees' Association's press statement that Rs. 50 crores were written off by the banks. They wanted to know if the Government would follow the system of the British banking institutions and print the name of people falling in the bad debt category with the amounts due and published in the press.

The Finance Minister Mr. Venkataraman refused to either confirm or deny the charge that Rs. 50 crores had been written off. Under the existing rules, he said, banks could not disclose bad debts and the names and other details of the parties.

As regards 'temples' of steel production, of which the Union Government has been so proud : according to an editorial note in the 'Statesman', New Delhi, dated August 20, 1980 :

> "The Planning Commission's tentative projections of demand for steel indicate the sorry state of the steel industry. In the fifties, the planners had envisaged an output of 100 million tonnes by the turn of the century. The Union Minister for Steel and Mines, on the other hand, thinks that production of 24 million tonnes by the end of this decade will be enough for self-sufficiency. A third estimate, more consistent with the first, places the requirement at 70 million tonnes by 1990.
>
> "Current indications, however, are gloomy. Shortage of power, scarcity of coking coal and transport bottlenecks are among the principal constraints on the working of the integrated steel plants. At the moment, these plants together have a production capacity of 10.6 million tonnes. Expansion of Bokaro and Bhilai, when completed, will raise capacity by another 5 million tonnes in five years. If the Visakhapatnam project, with a capacity of 3.5 million tonnes, is not completed by 1985, the chances are that imports of saleable steel will have to be stepped up further, or demand suppressed. During the current year, the Steel Authority of India is expected to import 1.4 million tonnes of steel worth Rs. 500 crores, a price which the economy is being forced to pay for the relative neglect of the steel sector in the past decade."

All the coking coal mines were gathered to the government's bosom in 1972, adding to the misery of consumers of coal and the public in general, in the form of delay, corruption and increased cost of steel, power, railway journey and other goods and services produced.

Perhaps, no other act of nationalisation has proved so damaging to the economy. Many a factory and power plant has shut or slowed down owing to non-availability of coal.

Coal was selling at Rs. 35 per tonne when the mines were nationalised. And they were making a profit too. Now coal prices have been increased five times in the case of coking coal and four times in that of non-coking coal since nationalisation. As a result, the ruling prices are

150 per cent and 250 per cent higher in the case of non-coking and coking coal respectively when compared to the pre-nationalisation prices. All these price increases were allowed not only to fully neutralise the hike in coal inputs but also to enable CIL to give a net return of 10 per cent on the capital employed. The CIL has made these heavy losses on an authorised share capital of Rs. 759 crores. As this book goes to the press, the Government has decided to raise the price of coal by about Rs. 20 a tonne to cover up the huge losses being incurred by Coal India, the major producer of this commodity.

The cost of production of coal in 1977-78 was Rs. 76.64 per tonne whereas the provisional cost of production in 1978-79 (without taking into account the impact of wage agreement of May, 1979) was Rs. 85.98 per tonne. Of this cost of production labour alone accounted for Rs. 47.02 per tonne in 1977-78 against Rs. 50.27 per tonne in 1978-79 (pre-increase). The average emoluments per employee per annum rose from Rs. 6919.2 in 1977-78 to Rs. 7976 in 1978-79. Incidently, this is true of many an enterprise ; they were showing profits while they were in private hands but began to give losses after they had been nationalised.

The reader might be interested in going through the following letter published in the 'Statesman'. New Delhi, dated November 25, 1980 :

STAGGERING LOSS

Sir,—It is a reflection on the management of Coal India that it has suffered a cumulative loss of Rs. 556 crores up to March, 1980. The total loss will amount to Rs. 992 crores, inclusive of interest of Rs. 196 crores and depreciation of Rs. 240 crores (November 10-11). This has happened despite staggering coal price increases after nationalisation. Is the publicity being given to such a huge loss meant to pave the way for a further rise in coal prices ?

In spite of the fact that the coal industry now enjoys the privilege of almost limitless Government funds, sufficient mining machinery and equipment for development, more than adequate work force, a good wage rate which is about four times that prior to nationalisation, and facilities to use the easier process of open cast mining, it is baffling how Coal India continues to lose so heavily year after year—Yours, etc., M. Das, Howrah, November 18.

In addition to manufacturing industry, banking and insurance, the Government has gone into various other types of business, like bakery, hotels, public catering in railways, production of text-books, road transport, etc. etc.—much of which was already being conducted or could easily have been conducted by private individuals with greater efficiency. Tea estates and cinemas are, perhaps, next on the agenda.

Foreign trade has been taken over and entrusted almost completely to the State Trading Corporation (STC). Internal trade also is sought to be controlled or nationalised[6] although the attempts have not yet all succeeded, e.g., in the case of foodgrains. Professor P. C. Mahalanobis, top adviser of Pandit Nehru on planning, came back after a visit to Moscow in 1958 with the brilliant idea, borrowed from the Russians, that it should be possible for the Government to 'procure' wheat and other foodgrains in the country and sell them at an annual profit of Rs. 120-130 crores through state trading. Of course, this profit would be used for financing the Five-Year Plans. This idea has grown into a dogma and the various organisations of the public sector, including the STC, FIC, LIC and others, have been extensively used to the same purpose, surreptitiously taxing the public and incidentally starving and stinting it through high prices and non-availability of the means of life.

Now, trade as distinct from manufacturing, requires instant decisions to be taken by people who have an intimate knowledge of market conditions for the product and its substitutes. On both counts, salaried officials in a monolithic public sector organisation come off a very poor second to the private traders. The STC's methods of work simply do not permit the delegation of responsibility which is necessary to enable the man on the spot to make quick decisions. What is more, even when he makes quick decisions these are likely to prove to be wrong for he lacks the skills which the private trader develops through years of unremitted pursuit of personal profit.

The investment in the industrial and commercial public enterprises of the Central Government as on 1-4-1968 amounted to Rs. 3333 crores. The public sector group then covered 83 enterprises. Of the total investment of Rs. 3333 crores, equity capital accounted for Rs. 1633 crores and long-term loans Rs. 1700 crores. At the end of March, 1979 the investment reached Rs. 15602 crores consisting of Rs. 7801 crores as equity and Rs. 7801 crores as long-term loans. The investment covered a larger group of 176 enterprises. The overall investment, it would be seen, registered a compound growth rate of 10.3% during this period.

The annual compound growth rate of net fixed assets during the decade works out to 15.5%, which is a significant indication of the growth of public sector. Similarly, the total capital employed [net fixed assets plus current assets (excluding investments and capital works in progress) and less current liabilities] in the public enterprises had increased from Rs. 3168 crores in 1968-69 to Rs. 14,173 crores at the end of 1978-79 showing a compound annual growth rate of 16.1%.

6. *Vide* the Civil Supplies Minister, Shri V. C. Shukla's speech in the Rajya Sabha in November, 1980.

The following statement shows the investment and number of companies from the commencement of the First Plan upto the period ending 31-3-1979 :

TABLE 98

Investment and Number of Companies ending 31st March, 1979

Period	*Total Investment (Rs. crores)*	*No. of Companies*
At the commencement of the First Plan	29	5
At the commencement of the Second Plan	81	21
At the commencement of the Third Plan	953	48
At the end of the Third Plan		
(as on 31st March, 1966)	2,415	74
As on 31st March, 1967	2,841	77
As on 31st March, 1968	3,333	83
As on 31st March, 1969	3,902	85
As on 31st March, 1970	4,301	91
As on 31st March, 1971	4,682	97
As on 31st March, 1972	5,052	101
As on 31st March, 1973	5,571	113
As on 31st March, 1974	6,237	122
As on 31st March, 1975	7,261	129
As on 31st March, 1976	8,973	129
As on 31st March, 1977	11,097	145
As on 31st March, 1978	13,389*	174
As on 31st March, 1979	15,602*	176

*Provisional figures.

The number of persons employed in the public sector enterprises stood at 18.7 lakhs as on 1st April, 1979. The employment and investment in Central Government departmental undertakings like Railways, Posts & Telegraphs and Defence Establishments, as also the investment and employment in the State sphere like road transport corporations and electricity boards, etc., have to be added to get a correct picture of the size and importance of public sector in the Indian economy.

Till 1971-72, the public sector corporations which had appropriated the lion's share of public investment resources, with the total investment rising from Rs. 29 crores at the commencement of the First Five-Year Plan in April, 1951 to Rs. 5,052 crores in March, 1972 continued to show a dead loss year after year.

Table 99 gives the statistics for a period of 11 years, 1968-69 to 1978-79.

TABLE 99

Trends in Financial Performance in Public Enterprises
(Running Enterprises excluding Insurance Companies)

	1968-69	*1969-70*	*1970-71*	*1971-72*	*1972-73*	*1973-74*	*1974-75*	*1975-76*	*1976-77*	*1977-78*	*1978-79*	*1978-79 (excluding coal)*
1. Total capital employed fixed assets less depreciation plus working capital)	3168	3281	3606	4089	4756	5376	6627	8824	10887	12130	14173	12428
2. Net profit earned by running enterprises (number of enterprises shown in brackets)	66.07 (41)	72.26 (41)	74.90 (52)	99.65 (58)	104.46 (67)	160.75 (72)	322.34 (81)	255.13 (87)	394.37 (93)	384.85 (81)	484.75 (88)	484.75 (88)
3. Net loss incurred by running enterprises (number of enterprises shown in brackets)	94.20 (32)	75.66 (32)	78.28 (35)	118.61 (35)	86.72 (34)	96.33 (42)	138.79 (39)	126.02 (34)	210.48 (56)	475.92 (73)	516.71 (69)	304.55 (64)
4. Total net profit after tax (number of enterprises shown in brackets)	—28.13 (73)	—3.40 (73)	—3.38 (87)	—18.96 (93)	17.64 (101)	64.92 (114)	183.55 (120)	29.11 (121)	183.89 (149)	—91.07 *(155)	—31.96 †(159)	180.20 (154)
5. Employment (in lakhs)	—	—	—	—	—	—	14.08	15.05	15.75	16.38	18.71	—

Source : For items 1 to 4, Public Enterprises Survey, 1978-79 (Vol. I), p. 2 ; for item 5, Economic Survey, 1979-80.

*Excluding Central Mine Planning & Design Institute, which neither carried profit nor incurred loss in 1977-78.
†Excludes Central Mine Planning & Design Institute which broke even during 1978-79 as well.
Further, Central Fisheries Corporation which was in the process of liquidation has not compiled its accounts.

Sixty-nine of the public undertakings are reported to have incurred a loss of Rs. 136 crores in the first quarter of 1980-81 (viz. April-June 1980). And the cumulation losses in the Steel Authority of India. Limited (SAIL) in the first half of 1980-81 amounted to a staggering Rs. 136.40 crores making the financial position of the public sector unit extremely critical.

The Annual Survey of Industries (ASI) for the year 1975-76 shows that out of 71,705 factories covered by it, 3,744 factories (5.2 per cent) belonged to the public sector, 1,307 (1.8 per cent) belonged to the joint sector and 60,539 (84.4 per cent) to the private sector, while 6,115 factories were 'unspecified'.

Factories in the public sector accounting for only 5.2 per cent of the total number of factories, had a far bigger share (57.7 per cent) in their aggregate fixed capital. These factories employed 1.5 million persons (23.4 per cent) and produced 6,270 crores worth of output (21.0 per cent). Their contribution to the national income was Rs. 1,677 crores (26.3 per cent).

The corresponding figures of fixed capital, employment and value added for the private sector stood at 35 per cent, 71 per cent and 68 per cent respectively.

According to the following table, the fixed capital : value added ratio in public sector factories was as high as 4.83 as compared to 1.13 in private sector factories, with the result that the rate of return on capital in the private sector factories was more than four times (0.25) that in the public sector factories where it was 0.06 :

TABLE 100

Annual Survey of Industries, 1975-76 : Structural Ratios by Type of Ownership—All India

Type of ownership	*Fixed capital per employee (Rs.)*	*Value added per employee*	*Fixed capital output ratio*	*Fixed capital value added*	*Operating surplus : Productive capital ratios or rate of return on capital*
Public Sector	54,311	11,256	1.29	4.83	0.06
Joint Sector	23,962	10,397	0.39	2.30	0.14
Private Sector	10,860	9,587	0.23	1.13	0.25
Total	21,987	10,009	0.47	2.20	0.14

The statistics given in Table 101 have been arrived at as a result of the Annual Surveys held over a number of years. Before one proceeds to study this table, it may be noted that 'Public Sector' comprises factories wholly owned by State Government, Local Government and Central and State Government/Local Government jointly. 'Private Sector' consists of all factories which are wholly owned by private enterpirse. 'Output' is the ex-factory value of products plus value of services rendered by the factory for others during the year of survey. It includes the net value of semi-finished goods and sale value of goods sold in the same condition as purchased. It will be seen that fixed capital-output ratio in the public sector stood at 8.3 times that in the private sector in 1970-71, and 5.6 times in 1975-76.

TABLE 101

Fixed Capital-Output Ratio in Public and Private Sectors

Year	*Fixed capital per factory (Rs. Lakhs)*		*Productive capital per factory (Rs. Lakhs)*		*Employees per factory (Number)*		*Fixed capital to output ratio*	
	Public Sector	*Private Sector*	*Public Sector*	*Private Sector*	*Public Sector*	*Private Sector*	*Public Sector*	*Private Sector*
1970-71*	346.10	24.73	406.52	39.52	707	267	2.66	0.32
1971-72*	318.76	21.06	381.07	35.27	663	263	2.59	0.29
1973-74	196.35	6.63	244.23	11.62	414	76	2.01	0.24
1974-75	190.47	7.44	254.23	13.10	372	78	1.51	0.21
1975-76	216.18	8.13	281.48	13.93	398	75	1.29	0.23

*Figures for 1970-71 and 1971-72 relate to factories employing 50 or more workers and using power, and 100 or more workers without using power in respect of which alone the required information was available.

The statistics of capital-output ratio of the two sectors, for the years 1974-75 and 1975-76 (with the 'public sector' defined as comprising only those undertakings which are owned by the Central Government, and the 'private sector' only those companies which had a paid-up capital of Rs. 1 crore or above) stood as shown below :

TABLE 102

Capital-Output Ratio of the Two Sectors

		Capital-output Ratio 1974-75	Capital-output Ratio 1975-76
Private Sector		0.45 : 1	0.46 : 1
Public Sector		0.93 : 1	0.81 : 1
		Capital-output Ratio (More or less comparable sectors) 1974-75	1975-76
Chemicals	Private	0.41 : 1	0.34 : 1
	Public	2.77 : 1	3.03 : 1
Iron & Steel	Private	0.68 : 1	0.76 : 1
	Public	2.17 : 1	2.94 : 1
Engineering	Private	0.47 : 1	0.45 : 1
	Public	1.69 : 1	1.32 : 1
Shipping	Private	1.47 : 1	1.69 : 1
	Public	2.00 : 1	2.63 : 1
Paper	Private	0.51 : 1	0.52 : 1
	Public	1.23 : 1	1.18 : 1
Cement	Private	0.68 : 1	0.50 : 1
	Public	3.71 : 1	3.64 : 1

The figures of overall profitability of the public sector enterprises, compared with those of the private sector, for the two years 1974-75 and 1975-76 are given below :

TABLE 103

Profitability of Public and Private Sectors in 1974-75 and 1975-76

		1974-75	*1975-76*
Net profit after tax as percentage of paid-up capital	Public	4.75%	2.85%
	Private	30.80%	22.42%
Net profit after tax as percentage of net worth, i.e., paid-up capital and reserves	Public	4.86%	2.86%
	Private	14.17%	10.20%

The reader will find that the capital-output and capital-value added ratios as also the rates of returns or net profit in the public sector are very adverse as compared with the private sector.

Statistics about the performance of public sector enterprises owned or controlled by the various State Governments also have a similar tale to tell. The reader will be astounded to learn the latest situation of Uttar

Pradesh in this regard. According to a report published in the 'Indian Express', New Delhi, dated 21-8-80 :

> "The 54 Government undertakings and corporations in Uttar Pradesh had shown a net loss of about Rs. 105 crores in 1980 against 95 crores in the preceding year.
>
> "The total state investment in these corporations is over Rs. 2,150 crores. The total investment in 1978-79 was Rs. 1,900 crores and losses Rs. 95 crores which rose to Rs. 105 crores with the investment going up to Rs. 2,150 crores.
>
> "The State Electricity Board has shown a loss of about Rs. 1.25 crores including the arrears of interest alone in the last financial year.
>
> "The board alone accounts for an investment of Rs. 1,792 crores, leaving only Rs. 350 crores for investment in the remaining 53 corporations.
>
> "Of the 54 corporations, only seven are manufacturing units, seven are of public utilities and services, five financial institutions, 11 area development bodies, and an equal number involved in the sectoral industries, three corporations are assisting weaker sections, four are cane seed development units and six are engaged in construction and consultancy service."

Could any Government in any country, in our conditions of a capital-scarce economy, have wasted its financial resources so wantonly as the Governments in India have done ?

The poor performance of the public sector enterprises is attributable to over-capitalisation, delays in completion of major projects, under-utilisation of capacity and, above all, to mismanagement and corruption.

A substantial part of the investments, which may vary from 20 to 40 per cent, depending on the projects and the parties concerned, shown in the account books, gets converted into private income via corrupt payments. Actual investments, therefore, are less than those shown in the ledgers, by the amount of the corrupt payments or what are called 'kick-backs'.

As regards delays in completion of projects, while it is true many a capital-intensive industry take long to construct and have a long gestation period, the time taken in our country in these processes, is unconscionably long. For example, a factory on the scale of Gorakhpur Fertilizer Factory in U.P. would have been set up and put into commission in Japan in a period of three years which it took 9 years in India to do.

A part of the actual investments, i.e., the investments remaining after conversion of a portion into corrupt payments, gets immobilised in idle production capacities. While these investments remain idle, the investment resources they embody are a waste. During the three-year period 1966-69, for instance, 35-55 per cent of production capacities are estimated to have remained unutilised in 20 selected public sector undertakings. Thus, considering that 60-65 per cent of the total investment resources of the country are appropriated by the public sector, 21 to 36 per cent of total investments were wasted in idle plants and equipment during three years.

An analysis of 99 enterprises covering 185 manufacturing units, made by the Bureau of Public Enterprises, showed that while 76 units had recorded more than 75 per cent utilisation in 1976-77, the number of such units in 1978-79 came down to 62.

The number of units where capacity utilisation was between 50 per cent and 75 per cent, increased from 24 in 1976-77 to 31 in 1977-78 and 42 in 1978-79. Similarly, the number of units recording less than 50 per cent capacity utilisation increased from 17 in 1976-77 to 27 in 1977-78 and to 42 in 1978-79.

Of the six producing units in the steel group, four recorded lower utilisation in 1978-79. The utilisation showed a downward trend over the last three years in respect of Durgapur, Rourkela and the IISCO plants. The major causes cited for lower utilisation in 1978-79 in Durgapur, Rourkela and IISCO steel plants were : restricted power supply from the State electricity systems, inadequate supply of coal, bad industrial relations and absenteeism.

Poor management leading to wastages of raw materials and accessories, over-staffing, inefficient maintenance of plant and equipment, etc., have impinged adversely on costs, quality, and the quantum of output. To give only two examples of over-staffing : in one of the steel works 27,000 people are employed when only 7,000 are required, and there are some 45,000 bogus or surplus workers in coal mines whose wages alone cost Rs. 32 crores a year to the exchequer.

Affiliation of the trade unions to different political parties leading to poor labour-industrial relations, unduly high emoluments of the workers, frequent changes of directors, stupid and heavy frowning on the profit motive, lack of autonomy leading, *inter alia*, to administrative delays, weakness of the infra-structure and delays in delivering raw materials are, in no mean measure, responsible for high costs, and production much below the capacity of the enterprise.

As intended, the public sector has assumed 'commanding heights' but only to expose its inefficiency and mismanagement to public gaze. Conceding that not all of the undertakings in the public sector are inefficient, and even allowing for the fact that many complex projects are capital-intensive, have long gestation periods and have perhaps spent more on social welfare than they should have, the overall performance of the public sector is depressing indeed. After creating near monopolistic conditions in important fields of economic activity, it has put the consumer totally at its mercy. The standards of public service in many undertakings have deteriorated as fast as the wages have gone up. Bad management and recurring losses were sought to be justified under the pretext of 'social profitability' which till today remains an elusive concept.

While an individual living beyond his means becomes insolvent, and a private business living beyond its capacity closes down, Government in India goes on expanding its business and spending beyond its means, and nobody cares. Evidently because, as a journalist remarks, "it hurts no one in particular if vast sums of public funds are wasted, although it is a safe bet that the guilty men responsible for this outrageous state of affairs will dismiss the criticism of their misdeeds as a sign of bias against the public sector".

Had the public sector undertakings been private concerns, they would have, on the one hand, yielded a tax of hundreds of crores per year to the Government, and, on the other, a profit of hundreds of crores to the proprietors or shareholders (an overwhelming proportion of which would have been ploughed back into the economy). On the contrary, the public has had to pay, and is even now paying crores of rupees to meet losses almost every year, in a way, in obeisance to these monuments of their government's folly—'modern temples of India', as Jawaharlal Nehru once called them.

Despite this, members of the ruling party, in fact, politicians of almost every hue have come to regard nationalisation measures and government control as radical ends in themselves, irrespective of how they work in practice. Only as recently as on August 1, 1980, the Government takeover of wholesale trade in foodgrains and other essential commodities to ensure remunerative prices to agriculturists and introduction of effective public distribution system for the supply of essential commodities at fair prices were demanded in the Rajya Sabha.

More than the men in the street it is the Indian intelligentsia and political leadership who are responsible. They have fostered a climate of opinion in which irresponsible populism has acquired respectability and economic rationality has come to be equated with 'reaction' and even being 'anti-people'. There is indeed a near consensus among the educated in support of the hodge-podge of concepts that passes for the Congress party's ideology.

"Not all our policy-makers and intelligentsia are aware", said Mr. Girilal Jain in the 'Times of India', dated January 3, 1973, "that post-war developments have proved that crises of over-production and depression are not inevitable under a system of free enterprise or a mixed economy, that even judged in terms of annual increase in GNP, the Communist economic system is neither more efficient nor more innovative, and that the U.S., Japan and West European countries have not only maintained their technological lead in many fields over the Soviet Union but greatly increased it—so much so that the men in the Kremlin are now anxious to gain access to their capital, technical knowhow and markets. But even those who know the facts, for some reason, shy away from them and subscribe to slogans relevant to the thirties—a period of depression and mass unemployment in Western countries."

As a matter of fact, wherever it was tried, central control of the economy was a failure. Nationalisation was accepted as the very foundation of socialism by Britain's Labour Party in the olden days. But when it was discovered in mid-fifties that the problems of large industries were essentially similar, whether they were publicly or privately owned, nationalisation enthusiasts lost mach of their ardour. It has gradually become apparent that merely formal changes in the pattern of ownership and control of productive assets cannot enable the country to produce more goods and generate more employment, and that public undertakings could be as susceptible to abuses as private enterprise units—sometimes the abuses were worse. The idea of further nationalisation has, therefore, become increasingly unpopular not only in Great Britain but in other countries also, e.g., West Germany and Japan where socialists have been revising theory and practice.

While in India the share of public enterprise in fixed investment in heavy industry is more than 50 per cent of the total, such information as there is, puts the public enterprise share of UK's total output as around 10 per cent and its share of fixed investment as around 15 per cent. As illustrations of the situation elsewhere in Western Europe, it is probably safe to cite the public enterprise proportion in Sweden as being somewhat smaller, and in Austria as rather larger than in Britain.

National interest clearly demands that, barring projects and industries which constitute the infra-structure, for example, roads, railways, irrigation, atomic research and nuclear energy as also some of the industries which, as demanded by the interests of national security, should be owned only by the State, and such others in which owing to their gestation period being long, investment high and returns low, the private sector might not like to invest, all the capital-intensive industries which we will necessarily have to have, should, as a general rule, be allowed to be set up or continue to operate in the private sector, subject, of course, to regulation and control by the State.

It follows that (a) in future, except in very exceptional cases, no industry should be taken over by, or established in, the public sector ; (b) such of the industries other than those falling under the definition of infra-structure, that are not making, and are not likely to make reasonable profit, may be sold away to private entrepreneurs and, if no buyers are forthcoming, closed altogether ; and (c) 'sick' industries that have been taken over by the Government for management, should be released or returned to their proprietors forthwith.

Since most of the public sector units are chronic losers, the Bureau of Public Enterprises itself had suggested in April 1979 that ten State-owned enterprises, which were losing heavily for decades, should be sold to the private sector. It also suggested that three others should be wound up straightaway for the same reason. It also hinted at the desirability or rather the expediency of liquidating another 15 units, although it did point out that it would be rather difficult to find buyers if they were put to auction for the whole lot. But after the Congress (I) came to power in January 1980, there was a new wind of change.

The FICCI President, Mr. H. S. Singhania, however, said in April, 1980 that the private sector—because of its dynamism and resilience—was in a position to take over the management of all public enterprises incurring losses and suffering from basic managerial deficiencies.

In reply to a question put by Mr. M.V. Kamath during the course of an interview that most of the public sector projects were not doing well and that, in fact, they are said to be a drag on the country's progress, the Prime Minister Shrimati Indira Gandhi said that "some of them were not doing well". She went on to add that 75 out of 143 were making a profit....

"A detailed analysis would show", remarks Mr. Kamath, "that, out of the 75, not many are major undertakings. Apart from that, is the country to accept the fact that 68 are incurring huge lossses ? Public sector losses are (according to her own Industry Minister Dr. Charanjit Chanana) Rs. 16,000 crores, which, incidentally, equals the total public sector investment in the country."

To another question that the profits were very small and there were no worthwhile returns, Smt. Gandhi replied that "the basic thing was not profits...as a result of this und concern for profits, we have lost a lot".

Upon this Mr. Kamath comments as follows :

"The Government philosophy, that the basic thing is not profits but social concern, is largely responsible for the wastage in public sector undertakings. Like socialism, social concern is a much-abused phrase.

"Again, the report published by the Lok Sabha Secretariat on 'Public Undertakings—Delays in Commencement of Production/Business, Under-utilisation of Capacity and Related Matters' gives the lie to the excuse trotted out about social concern. Any private concern that does not make profits is quickly wound up. To say that concern for profits is responsible for losses is an amazing statement for anybody to make—least of all a Prime Minister."[7]

In this connection we may point to the example of Japan, where, about one century ago, large-scale industry was started by the Government as Government enterprises. Within a few years, however, these enterprises outgrew the competence of the Government and its bureaucracy. After 1880, that is, only a dozen of years after the beginning of

7. *Vide* The 'Illustrated Weekly of India', Bombay, January 25, 1981.

westernisation, they were sold off to private enterprise, primarily because the Government lost too much money in running them. And they—and Japan—really started growing.

Here, in India also, in 1972 and 1973, the State Government of Uttar Pradesh sold away some of its inefficient power-houses to private citizens by auction. Two years later, the Bihar Cabinet also decided to close down 25 small industries owned by the State Government as they were running in perpetual loss. They were to be sold to small industrialists (*vide* the 'Times of India', New Delhi, dated November 28, 1975). Further, it was decided that the 'sick' units which had been taken over by the Government for management, be released or returned to their proprietors forthwith.

The following extract from the 'Hindustan Times', dated April 23, 1979, shows how one of the two Communist giants, China, reacted in such a situation :

CHINA CLOSES SICK PLANTS
(Special to the Hindustan Times)

China is halting hundreds of construction projects and closing many uneconomical factories as the Government readjusts its modernisation plans. The cutbacks take account of wasteful and incompetent planning in the past and also the present shortage of funds for industrial development.

Agriculture and light industry, coal mining, power and oil are receiving top priority at the expense of investment for iron and steel, which is being reduced. Special priority is also being given to tourism and factories producing for export. *The Government has ordered the closure or amalgamation of enterprises which chronically lose money or which are situated far from the raw materials they require.*

The Communist party paper, the 'People's Daily' said :

It is necessary to close down or merge, cancel or postpone the construction of factories without easy access to transport and guaranteed supplies of fuel, power, water and raw materials. Enterprises which cause serious pollution or which have to produce at a high cost are also in this category.

The paper urged greater investment for agriculture, saying, food production had not received the attention it deserved although there was much talk about its importance. The 'People's Daily' criticised policies which prevailed in the last two decades of the

'Mao era'. It said : "Development of agriculture over the past 20 years has remained slow due to the long period of political instability and the failure to guide production with objective economic laws."

The paper said, people had to be able to see benefit for themselves in the national modernisation programme. "The people must be provided with immediate material benefits", it said. "Only in this way will they concern themselves with the country's modernisation or be willing to work harder to increase productivity."

The New China News Agency cited the case of an iron works in Chinghai Province which had cost £ 21,000,000 to build during the past eight years but still had only a small blast furnace and a small rollingmlles. Coke and iron ore had to be hauled from hundreds of miles away and the plant had recorded operating losses of £ 7,000,000.

—By arrangement with the 'Daily Telegraph', London

12

Foreign Loans

Establishment of heavy industry in the public sector, coupled with nationalisation of existing private industry, has led to an unconscionable burden of foreign debt. At the time of India's Independence Britain had left behind gold, coin, and bullion worth Rs. 1180 crores in the Reserve Bank plus Rs. 1,733 crores of sterling balance, Rs. 425 crores of repatriation pre-war debt, and Rs. 115 crores in the Empire Dollar Pool—a sum of Rs. 3,452 crores in all. But today although the volume of exports has gone up and remittances for the upkeep of foreign rulers have ceased, India has become, since Independence, a topmost debtor country.

By 1950-51 the money left to our credit by the British had been squandered, and we came to owe a debt of Rs. 32 crores to foreign countries. As Table 104 will show, the external assistance that we sought and secured during the period 1951-79 amounted to Rs. 19231.6 crores, of which 9.7% constituted outright grant. It must be noted that this amount is exclusive of the loan of two million tonnes of wheat from the USSR in 1972-73*, credit secured for financing a part of the oil imports from Iran, and a huge sum of PL-480 debt—Rs. 1,664 crores—which was written off by the USA in 1974. Out of this huge total, as the subsequent table would show, Rs. 7883.7 crores had been paid off to the creditors by March, 1979—Rs. 5097.3 crores towards principal and Rs. 2786.4 crores towards interest.

*This loan has, however, been returned or paid back in kind in 1979-80 as stipulated.

TABLE 104

Share of Grants and United Credits in External Assistance

(Rs. crores)

Period	*Total external assistance*	*Share of grants in total assistance (per cent)*	*Share of united credits* in total assistance (per cent)*
Upto the end of Third Plan	4508.8	7.5	39.1
1966-67	1131.4	8.6	16.2
1967-68	1195.6	5.1	21.2
1968-69	902.6	7.2	17.3
1969-70	856.3	3.0	22.9
1970-71	791.4	5.5	20.3
1971-72	834.1	6.1	21.3
1972-73	666.2	1.8	41.7
1973-74	1035.7	2.4	52.1
1974-75	1314.3	7.0	48.5
1975-76	1840.5	15.4	46.5
1976-77	1598.9	15.4	55.4
1977-78	1290.0	20.2	22.4
1978-79	1265.8	21.6	24.2
Total	19231.6	9.7	34.3

Source: *Economic Survey*, 1979-80, Table 7.4.

*Comprise mainly loans from IBRD, Sweden, USA and West Germany and debt relief.

Note: Amounts expressed in foreign currencies have been converted into rupees at the post-devaluation rate of exchange ($=Rs. 7.50) upto 1970-71. For the year 1971-72, pre-May 1971 exchange rates have been retained for conversion into rupees. For 1972-73, the rupee figures have been derived on the basis of the central rates which prevailed following the currency realignment of December, 1971. For 1973-74, the quarterly average of the exchange rate of the rupee with individual donor currency has been applied to the quarterly data in respect of utilisation for arriving at the equivalent rupee figures. For 1974-75 utilisation figures have been worked out at current rates which is the monthly average exchange rate of the rupee with individual donor currencies. Utilisation figures for 1975-76, 1976-77 and 1977-78 are based on actual daily rates of the rupee with the donor currency on the respective dates.

TABLE 105
External Debt Service

(Rs. crores)

Period	*Amortisation*	*Interest payments*	*Total debt service*
1	*2*	*3*	*4*
First Plan	10.3	13.5	23.8
Second Plan	55.2	64.2	119.4
Third Plan	305.6	237.0	542.6
1966-67	159.7	114.8	274.5
1967-68	210.7	122.3	333.0
1968-69	236.2	138.8	375.0
1969-70	268.5	144.0	412.5
1970-71	289.5	160.5	450.0
1971-72	299.3	180.0	479.3
1972-73	327 0	180.4	507.4
1973-74	399.9	195.9	595.8
1974-75	411.0	215.0	626.0
1975-76	462.7	224.2	686.9
1976-77	507.4	247.3	754.7
1977-78	560.6	260.1	820.7
1978-79	593.7	288.4	882.1
1979-80*	563.0	295.5	858.5
	5660.3	3081.9	8743.2

*Estimates.

Note : These figures relate to payments made in foreign exchange and through export of goods. Conversions in rupees are at the pre-devaluatio n rate of exchange (\$ 1=Rs. 4.7619) for the first three Plans and at the postdevaluation rate of exchange (\$ 1=Rs. 7.50) for the subsequent years up to 1970-71. For the year 1971-72, pre-May 1971 exchange rates have been retained for conversion into rupee of amortisation payments ; but central rates have been used for computing the rupee equivalent of interest payments effected between December 20, 1971 and March 31, 1972. For 1972-73, central rates have been used. For 1973-74, the quarterly average of the exchange rate of the rupee with individual donor currency has been applied for arriving at the equivalent of rupee figures. For arriving at the rupee equivalent of repayments of principal and interest from 1974-75 onwards, actual daily exchange rates of rupee with the individual donor currency applicable on the respective dates have been used.

The reader will find that the debt servicing charges are rising higher and higher as time passes. The strain that debt servicing causes to our balance of payments position and on our economy as a whole, can be easily gauged from the statistics given in the following two tables. It will be found that, except for the years, 1970, 1971 and 1972 the percentage of our service payment on external public debt to export earnings was easily the highest of any country in South and East Asia.

TABLE 106

External Debt Servicing Payments

Service payments on external public debt as percentage of export of goods and non-factor services (a)

Country	*1965*	*1966*	*1967*	*1968*	*1969*	*1970*	*1971*	*1972*
South Asia								
Sri Lanka	2.0	2.8	3.4	7.0	8.6	9.7	11.3	14.3
India (e)	15.0	21.9	24.8	21.0	33.2	22.5	24.7	24.1
Pakistan (f)	11.0	13.0	17.2	19.6	22.2	24.2	34.0	25.0
East Asia								
Indonesia	10.3	8.4	5.3	5.6	5.6	7.0	8.8	8.0
Korea, Rep. of	2.8	3.8	5.7	7.2	13.3	20.4	20.5	14.2
Malaysia	1.3	1.4	2.1	2.2	2.2	3.0	2.7	3.0
Philippines	5.4	6.4	7.2	5.5	4.6	7.5	6.0	6.8
Thailand	3.7	3.4	3.6	3.8	3.9	3.6	3.3	2.8

Source : India : Pocket-book of Economic Information 1973 & 1974, Table 16.13, pp. 248, 249, 250 and 251.

Notes : (a) Except where otherwise indicated, includes all goods, non-factor services. Data for some countries are partially estimated.

(e) Data are for fiscal year.

(f) Data are for Pakistan, which through 1970 included East Pakistan. Data for 1971 Bangladesh. Data for 1972 are for Pakistan only.

TABLE 107

Public Debt as Per cent of National Income of Some Important Countries

Country	1973		1974		1975		1976		1977	
	Internal debt	External debt	Internal debt	External debt	Internal debt	External debt	Internal debt	External debt	Internal debt	External debt
1. Australia	35.6	3.4	30.5	2.2	25.7	1.8	26.6	1.8	28.1	2.5
2. Austria	9.7	1.8	8.7	2.4	11.8	5.5	15.2	5.4	16.9	6.8
3. Belgium	46.6	0.5	42.6	0.3	43.8	0.2	43.7	0.2	40.2	0.1
4. Canada	50.3	0.3	42.8	0.2	43.9	0.1	42.7	0.1	36.0	0.1
5. Denmark	1.8	4.1	1.6	4.0	1.3	4.0	n.a.	n.a.	n.a.	n.a.
6. France	7.7	0.8	7.6	0.7	9.5	0.5	9.0	0.3	8.9	0.3
7. Germany (West)	12.8	0.1	16.4	0.1	19.6	0.1	21.5	0.1	22.9	neg.
8. India	43.4	11.8	38.8	10.7	43.9	11.8	46.0	12.8	49.2	12.2
9. Italy	25.2	—	31.5	—	38.3	—	41.2	—	45.5	—
10. Japan	7.6	neg.	7.8	neg.	7.9	neg.	10.6	neg.	16.0	neg.
11. Philippines	13.2	3.8	11.3	5.1	11.9	5.4	12.7	9.3	12.8	10.4
12. Sri Lanka	51.5	16.1	47.0	14.6	47.8	16.3	51.1	20.0	47.9	36.7
13. Sweden	21.8	neg.	23.6	neg.	24.7	neg.	23.8	0.1	26.5	0.1
14. U.K.	54.3	2.5	52.1	2.1	47.0	3.1	48.3	3.2	50.4	3.1
15. U.S.A.	42.9	—	38.1	—	40.8	—	41.9	—	42.6	—

Source : (i) U.N. Statistical Year Book (Various issues).
(ii) International Financial Statistics (Various issues).

Note : (i) For India, the figures are for fiscal years beginning in April.
(ii) Neg.=negligible.

The extent of financial dependence of India on the IDA (International Development Association) will also be clear somewhat from the following examples :

In Financial Year 1980 India signed up for a $ 250 million IDA loan to the Agricultural Refinance and Development Corporation, for a $ 20 million loan to finance a second irrigation project in Maharashtra, a $ 175 million loan for an irrigation project in Gujarat, a $ 54 million loan to expand and improve production of silk in Karnataka, a $ 37 million loan for reforestation of woods in Gujarat, a $ 22 millon loan to help finance cashew production in Kerala, Andhra Pradesh and Orissa, a $ 20 million loan to increase crop production in West Bengal, Bihar, Orissa, Madhya Pradesh and Uttar Pradesh, and so on.

The nationalisation of the Imperial Bank and Life Insurance and the resolve to develop heavy industries like steel were indications of Nehru's socialistic approach. But the country's inability to implement the new policies was exposed by increasing dependence on PL-480 imports of food and by the foreign exchange crisis. Unable to face up to the situation, the leadership compromised its basic approach as the price for assistance by the consortium of rich countries under the World Bank. The 1966 devaluation, which was forced on us by our foreign lenders, increased, at one stroke, our foreign debt obligations by over Rs. 2648 crores, viz., from Rs. 4650 crores in March 1966 to Rs. 7298 crores in March, 1967.

In order to finance our debt repayment we have to export more and more of our daily necessities like tea, sugar, coffee, oil seeds, *basmati* rice and cashewnuts, and thus starve our people and, besides, raise the price of what is available. "For example", points out the Bombay weekly 'Blitz', in its issue dated August 15, 1974, "sugar was exported at one time at 75 paise per kilo against the local price of Rs. 4 and tea at Rs. 8 against the local price of Rs. 16 or Rs. 20 a kg. Shoes are exported at Rs. 15 or 20 a pair, while they are available at Rs. 60 to 80 a pair in the country. Cloth has been exported at Rs. 1.50 to 2.50 a metre while the meanest variety is not available to the children of our soil at Rs. 4 a metre. Cotton garments are sold abroad at Rs. 12 to 15 while they cost Rs. 60 to 70 within the country."

It is developing countries like India who go in for foreign aid in the form of loans or grants but it is forgotten that dependence on foreign aid is not only economically strangulating but humiliating also.

'Aid' is an ambivalent expression. It seems to suggest a succour, a help and a relief and the primary image of the expression is one of grant without any *quid-pro-quo*. However, in reality, foreign aid rarely consists of outright grants, but loans and credits repayable in foreign currency, in Indian currency where special agreements exist, or in kind with interest. These loans and credits may be on Government-to-Government account, or on the basis of bilateral agreements, or through financial institutions belonging to the aid-giving country, or through international financial agencies, such as the World Bank, the International Monetary

Fund and the International Financial Corporation working under the United Nations. Aid need not necessarily be a direct transfer of financial resources. It may take the form of direct commodity loan, like the Wheat loan from Russia, or the PL-480 loan of U.S.A. Whatever be the form of the aid, it is clear, as has been observed by Teresa Hayter in a book, *Aid as Imperialism* (Penguin Series, 1974), that it has never been an unconditional transfer of financial resources. She says :

> "Usually the conditions attached to aid are clearly and directly intended to serve the interests of the governments providing it. For example, aid must generally be used to buy goods and services from its provider. Aid from the United States must be carried in United States ships. Aid from the United States is not, under the Hickenlooper Amendment, available to countries which nationalise US-owned assets and fail to take appropriate steps to rectify the situation within six months."

Aid is also used as an instrument to influence policies of the receiving Government. For example, the Programme Guidance Manual of the United States states :

> "Aid as an instrument of foreign policy is best adopted to promoting economic development. Development is not an end in itself, but it is a critical element in US policy, for in most countries some progress in economic welfare is essential to the maintenance and the growth of free, non-Communist societies."

This manifest interest in economic development of the poor countries is, as can be seen from the above extract, designed to serve the long-term interests of the developed country itself, because foreign aid to developing countries would, in the first instance, help maintain full employment or nearer to it in the donor country, for production of the necessary machinery and raw materials to be supplied to the receiving country, and actual flow of reverse resources from the receiving country by way of repayment of loan with interest. Further, it also ensures scope for employment of a number of citizens of the aid-giving country in the aid-receiving country for the setting up of plants, maintaining them and supervising production in the preliminary stages of development ; by arranging the time-schedule of aid, a continuous flow of such personnel could be maintained. The example of the Russian-aided and the German-aided Steel plants in India, which still have a core of foreign technicians hovering about, cannot be missed. Thus foreign aid is a new form of economic colonialism in which the receiving country is made perpetually dependent upon the donor country and in which the receiving country is inhibited from exercising its full sovereignty in regard to the management of its affairs in accordance with the national objectives, owing to the conditions which are tied, overtly or covertly, to the loans and credit advances. Further, economic dependence is perpetuated by the need for finding continuous foreign resources for what is known as 'debt servicing', i.e., repayment of loan and interest which a poor developing country cannot finance out of its meagre exports. Thus, as pointed out in the preceding pages, a good deal of our foreign assistance goes towards amortisation payments and interest payments. When the aid (in other words, loan plus grant) was drastically reduced during the period 1968-73, the country had to go in for more aid since 1973-74 onwards. Taking the four years 1975-76 to 1978-79, out of foreign aid of Rs. 7058.3 crores, debt servicing alone accounted for Rs. 3144.4 crores, which is 40.6 per cent of the aid—with the result that the average Indian is burdened with a per capita foreign debt of Rs. 400 today, which is, perhaps, the highest in the world.

From the above it is clear that there is no aid without strings and no grant without conditions, and, even if it is there, such a grant would breed a psychological arrogance in the giver and a supplicant's attitude in the receiver. As Swami Vivekananda stated : "The mind of the man who receives a gift is acted upon by the mind of the giver, so the receiver is likely to become degenerated. Receiving gifts is proven to destroy the independence of the mind and make us slavish. Therefore, receive no gifts." To give an example : in the last week of October, 1974, India had made a request to a friendly country, the Soviet Union, for increased supplies of critical items like kerosene oil, rolled steel, non-ferrous metals and fertilisers which the latter country unceremoniously turned down.

It is stated that, instead of bilateral aid, it would be of advantage to seek loans from international agencies like the IMF and the World Bank, which, by the very nature of their functions, cannot impose any conditions and would not in any way impinge on the sovereignty of the countries to which loans are granted. Here, again, there appears to be only a facade of unconditional loans. In reality the World Bank and the Associated Agencies make studies prior to granting loans by sending out experts, who evaluate the investments and tax policies, the selection of projects, the economic potential of those projects, and budgetary control like the size of deficits on public account, and advise on these matters as a precondition to giving loans. Such advice may sometimes go against the policies of the Government.

Hirschman, in his book *Foreign Aid—a Critique and a Proposal*, says :

> "The commitment a country undertakes...is typical of the following kind : to increase investment and decrease consumption, to increase the share of the private sector and decrease that of the public sector, to devalue the currency and thereby alter the relative price relationship with the country, to throttle inflation and thereby strike a blow at the particular interest group whose turn it is to

benefit from the next inflationary appropriation, credit expansion, or rise in prices of wages ; and so on, and so forth."

It is open knowledge that the devaluation in 1966 was brought about as a result of pressure by the World Bank and what subtle pressure the Bank is exercising in the adoption of various economic policies of this Government will remain unknown. It is also widely believed that the much discredited family planning sterilisation programme was adopted as a result of pressure from the World Bank. In spite of this our country is looking to external assistance like a *Chatak* bird for the falling of rain, which shows our increasing anxiety over the possibility of international institutions cutting their aid as a result of the apparent and temporary increase in our foreign reserves.

While all this is true, even the USA, Canada, Australia, Sweden and the USSR resorted or had to resort to loans of foreign capital for developing their economy, but there was a limitation on the extent to which we could utilise such assistance. Loans must pay interest. Now, it is not all kinds of economic or developmental activities that are able to pay their way or necessarily and automatically lead to proportionate improvement in the balance of payments. For example, investment in social over-heads like power, communications, transport, water supply, health and education is often a type of investment in which returns are long deferred and which has a low output : capital ratio. Conditions of the above mentioned countries, however, were far different from ours ; the quantity of their physical resources per capita and the quality of their human factor were so high. Utilisation of foreign capital yielded dividends at a rate that no difficulty in paying off the loans arose or could possibly arise.

Second : foreign economic aid, in certain circumstances may—in fact, it actually does—more harm than good. To the extent it permits importation of foreign-made machinery and equipment for projects which, though they may satisfy our vanity, are unremunerative, it may set off an inflationary spiral increasing and aggravating the existing social and economic tensions in the country. National airlines, foreign hotels, nuclear reactors, nuclear bombs, communications satellites, even western type universities (whose graduates cannot get jobs) are examples of such projects.

Third : such aid is bound to have adverse reactions both in the economic and political fields. In the economic field it takes the edge off the need for maximising domestic effort in the mobilisation of domestic resources as also that for maximising vigilance in regard to details of expenditure on the plan projects. It is, for instance, indisputable that PL-480 is responsible in no small measure for the near absence of fiscal discipline in the country today. Since large funds were available from the sale of these supplies for balancing the budget year after year, the Indian establishment virtually lost the habit of putting any limit on its non-development expenditure so much so that it persisted in its ways even after the PL-480 programme was terminated in 1971. Since then it has resorted to deficit financing on a frightening scale.

Fourth : in the political field, if the recipient country is not cautious, foreign aid is likely to inhibit its freedom in terms of foreign policy—as we saw in connection with our conflict with Pakistan in 1971. How the mind of an aid-giver, here the USA, worked during this conflict, was spot-lighted in the disclosures made by the columnist, Jack Anderson of the USA : at the WASG (Washington Action Group) meeting held on December 8, 1971, Dr. Kissinger emphasised that the President had made it clear that no further foreign exchange (surplus) commodities or development loans could be assigned to India without approval of the White House.

The Deputy Aid Administrator, Mr. Williams, then noted that it might be a good idea to substitute some vegetable oil for wheat. His exact words were :

> "The Department of Agriculture says the price of vegetable oil is weakening and it would help us domestically...to ship oil to India."

Referring to the President's and the Senate's warning to taper off all foreign aid, the 'Christian Science Monitor' pointed out how foreign aid safeguarded ultimately the interests of the USA itself :

> "The White House and Congress are also mindful of the primary beneficiaries of much of American foreign aid—American industry itself. The aid programme results in one billion dollars a year in sales for US manufacturers—a wealthy chunk of it in States represented by senators who voted down the initial measure. The poverty-prone US shipping fleet gets a quarter of its outbound tonnage revenues from the aid programme. And a startling 600 million dollars in aid funds goes to American Universities and research centres for technical and other assistance work overseas. To cut this kind of industrial and technical support out of the US economy, especially when an economic rebound is useful to every politician's re-election, would take more serious thinking than the Senate's first precipitate vote gave it."

So that our countrymen should realise that rich, industrial nations are not sincere in their professions about sympathy for the poor nations, That is what experience of human nature should tell us : an individual may sacrifice one's life for another individual but not a group, a community, a nation for another group or so. This will be clear from an excerpt of the speech which Robert S. MacNamara, made while retiring from the Chairmanship of the World Bank after a span of 13 years, as reported in the 'Dallas Times Herald' dated October 1, 1980 :

> WASHINGTON—Robert S. MacNamara, who is stepping down after 13 years as President of the World Bank, criticized the United States Government on Tuesday for a 'disgraceful' record in alleviating global poverty.
>
> In an emotional speech which ended in tears, the former US Secretary of Defence said, widespread poverty "is an open insult to the human dignity of us all…for we have collectively had it in our power to do more to fight poverty, and we have failed to do so".
>
> MacNamara, 64, addressed the annual joint meeting of the 141-nation International Monetary Fund and the World Bank. Under MacNamara, the bank has become the main channel for distributing aid from rich to poor nations, and last year it made $ 12 billion in loans, largely for humanitarian purposes.
>
> But MacNamara said there are still 1.3 billion people, more than one-quarter of the world population, living in countries where the per capita income doesn't exceed $ 200 a year.
>
> MacNamara was critical of the aid efforts of most industrial nations, but particularly of the United States, which, he said, is currently doing less to help combat poverty, in relation to its wealth than any other non-Communist industrial nation.
>
> World Bank figures show the United States this year will allocate just 18-hundredths of 1 per cent of its gross national product for foreign aid, compared with the average for all industrial countries of 34-hundredths of 1 per cent. The US effort was 27-hundredths of 1 per cent as recently as MacNamara wept openly at the end of his lengthy address.
>
> "These past 13 years have been the most stimulating of my life. I would not have traded them for anything", he said. He received a standing ovation from the delegates, who were mostly finance ministers and central bank presidents from around the world.

By the way, one would be interested in knowing how many public men of India have shed tears over the plight of their own countrymen living below the poverty line who number not less than 380 million today.

Today we find that, to our shame, India's economy has been reduced to abject dependence on foreign capital. This, despite the fact that all the inspiration, all the motive power behind our struggle for *Swaraj*, just as behind every nationalist movement throughout the world, lay the spirit of *Swadeshi*, the spirit of self-reliance, the determination of the people to stand on their own feet. It is this attitude which makes a nation great.

Nehru's policies of reliance on foreign capital and foreign technology have sapped the country of its life-blood. Foreign aid denigrates the poor recipient in his own eyes and militates against the spirit of self-help and enterprise.

"The insistence on the need for external assistance", says Professor P.T. Bauer in an article published in the 'Statesman', New Delhi at the end of 1974, "obscures the necessity for the people of poor countries themselves to develop the facilities, attitudes and institutions which are required if these societies are to achieve sustained, substantial material progress. Indeed, this insistence on external aid helps to perpetuate the ideas and attitudes widespread in these countries which are damaging to economic progress : that opportunities and resources for advance of oneself and one's family must come from someone else—the state, the rulers, one's superiors, richer people or foreigners. In this sense aid pauperizes those it purports to assist."

There cannot be two opinions, therefore, that foreign capital, if at all, can have only a limited role to play : it cannot become a substitute for savings from abroad ('savings' made by a country's nationals whether outside the country or earned through trade etc.) or automatically provide a solution to the problems of capital accumulation within the country itself. The World Economic Survey, 1961, 14th, in a series of comprehensive reviews of world economic conditions, published by the U.N. on July 12, 1962, was categorical that "external aid can never be more than a supplement to the foreign exchange which underdeveloped countries earn from their own exports".

There are examples of countries which have imported large quantities of foreign capital for long periods without any substantial transformation in their economies, e.g., Argentina before 1914 and Venezuela down to 1960. The imports may result only in a brief spurt of expansion which is not subsequently sustained. For, there are so many factors or conditions, other than mere amount of foreign capital, that contribute or make a difference to the economic development of a country, e.g., quantity and quality of its natural resources ; the rate of internal savings ; the choice of techniques or the composition of capital in individual projects, that is, whether they will be capital-intensive or labour-intensive ; the priority that will be allotted as between the various sectors and sub-sectors of the economy ; the extent to which free or private enterprise will or will not be allowed to function ; the availability of a trained and healthy labour force and an aggressive and forward-looking class of entrepreneurs ; the social system and the economic organisation which determine the incentives and mobility of the workers ; the political philosophy and efficiency or otherwise of the administration on which depends whether the citizens will or will not enjoy a sense of security ; and, above all, the attitudes of the people, that is, whether they really desire progress and are prepared to innovate and work hard for it.

13

Foreign Investments: Multi-nationals or Collaborations

As distinct from foreign aid, which is mainly a transfer of resources on Government account, foreign investment is the inflow of capital and other resources through the agency of private or public enterprises. Foreign investment is purely a commercial proposition attracted by rewards of profit and assurance of security. In all ex-colonial countries foreign investment was largely provided by companies belonging to the imperial country, as UK in the case of India, Netherlands in the case of East Indies, France in the case of Indo-China and African countries. These investments were mainly and initially made for purposes of extracting raw materials and mineral products from the colonial countries to feed the industries of the imperial country. On the attainment of independence by these colonial countries these investments were allowed to continue on the argument that sudden withdrawal of foreign commercial interests meant certain disaster to the economy of the country and the enormous financial resources that would be required in case these foreign concerns were nationalised, were wanting.

Initially, the British companies in India invested their funds in such industries as Jute, Tea and Rubber. Later they entered the Public Utility : the capital investment in Railways which was the highest, came to Rs. 8,478.2 million in 1938-39 on which the return was Rs. 359.6 million. In 1943-44 the profit was more than doubled to Rs. 852.1 million on an investment of Rs. 8,585.2 million. Other British investment in companies in India totalled about £ 300 million, i.e., at the then prevailing rate of exchange, about Rs. 4,000 million. Among the manufacturing concerns, the Indian Steel Company and the Steel Corporation of Bengal were two big metallurgical plants in British control, management and ownership. Thus, after Independence, the British Railways having been taken over, the value of the total foreign business investments in India in manufacturing, mining, transport, trading, plantations and other industries was Rs. 2,031 million.

Not only existing foreign concerns were allowed to continue, but fresh foreign investment was unabashedly invited by our political leadership in the name of 'collaboration'. In addition to providing employment—it was argued—such factories will make available the technical know-how and managerial skills that we did not possess. At the same time, no question of repayment of capital and its interest will arise, nor any question of political strings being attached.

Nehru went on record in 1949 that "Indian capital needs to be supplemented by foreign capital, not only because our national savings will not be enough for the rapid development of the country on the scale we wish, but also because, in many cases, scientific, technical and interesting knowledge and capital equipment can best be secured along with foreign capital". This view or decision was reiterated on July 4, 1957 when he stated : "We have always welcomed foreign capital in the past and we welcome it in the future".

On 29th August, 1975, R.S. Bhat, Chairman of the India Investment Centre, boasted at a press conference in New Delhi that several foreign firms had told him that the guidelines enshrining government's policy in this regard were "fair and reasonable" and "no other country in the world permitted foreign firms to have an equity share of as much as 74 per cent". On 26th August, 1977, Shri Bhat again declared that "the policy in regard to foreign investment and collaboration had not undergone any change and the Government would permit such investment and collaboration only in areas of sophisticated technology or for augmentation of exports". Besides the India Investment Centre, the Governments of Maharashtra, Punjab and U.P. had sent out teams to contact businessmen in UK, Germany, US, Canada and other countries and the teams had reported 'encouraging results'.[1]

In making such unabashed invitation to foreign capital it has been forgotten that foreign investors or collaborators, with a superior bargaining power, technological sophistication, and world-wide capacity for balancing their risks may successfully compete with Indian firms which are already well-established, and foreign technology will be introduced even while Indian know-how was available.

As a result, foreign investors who were prepared to pack up on the advent of political independence in the country, decided to stay, and the amount of foreign investment rose from Rs. 260 crores in 1948 to Rs. 890 crores in March, 1964, Rs. 1,619 crores in March, 1969 and Rs. 1,940 crores at the end of March, 1974. Within seven years of Independence, the British investment crossed Rs. 4,000 million mark, of which one-third was invested in the manufacturing and plantation industry. The manufacturing industry centred round cigarettes, tobacco, food products, jute and coir goods, electrical goods and medicines. This, despite the fact that we were supposed to have wrested independence from the exploita-

1. 'Financial Express', dated 26-8-77.

tion of the British imperialists and given economic freedom to our people.

What is still more galling, however, is the fact that today we have not one foreign exploiter but several who have together increased their exploitation sevenfold during a period of twenty-five years. The details of private foreign investment are as under :

TABLE 108

Foreign Investment in India : Distribution Country-wise

(In millions of rupees)

Country	As at the end of March					
	1969	*1970*	*1971*	*1972*	*1973*	*1974*
UK	6,367	6,179	6,175	6,410	6,560	6,891
USA	4,339	4,313	4,567	4,848	5,154	5,309
West Germany (FRG)	1,040	1,157	1,196	1,367	1,592	1,808
Italy	734	902	911	840	733	834
Japan	814	713	603	547	516	416
Switzerland	324	445	463	464	496	449
France	560	532	481	495	630	497
Canada	185	206	238	280	339	324
Sweden	186	188	195	202	286	343
Other countries	766	962	1,115	1,203	1,186	1,317
International Institutions	878	812	852	910	1,082	1,212
Total	16,193	16,409	16,796	17,557	18,574	19,400

Source : Reserve Bank of India Bulletin, March, 1978 (p. 179).

The total amount of remittances made abroad by foreign companies from India, in various forms, in 1972-73, stood at Rs. 888.8 crores, as can be seen from the following table :

TABLE 109

Remittances made by Foreign Companies from India

(In millions of rupees)

Head	*1971-72*	*1972-73*	*1977-78*
Profits	99.4	155.4	101.3
Dividends	388.7	390.8	680.1
Royalties	58.6	73.3	195.0
Technical know-how	139.0	113.3	281.4
Interest payment by private sector	121.3	156.0	227.0
Total	807.0	888.8	1484.8

Of this huge sum, Rs. 1484.8 million, Rs. 808.4 million are sucked by two countries alone—Rs. 418.8 million by UK and Rs. 389.6 million by USA.

Although it received little help from the authorities, the facts unearthed by the Dutt Committee on Industrial Licensing, 1968 are grim, indeed. Of the 2,360 collaboration accords that came to its notice, for instance, as many as 1,583 were 'repetitive', that is, a number of Indian parties had signed up with the same foreign party or with several foreign parties to manufacture the same product. What is worse, the Committee points out, no fewer than 230 of these were for the manufacture of 'non-essential' commodities like toys, pencils, ink, hair clips, safety pins, ice-cream, gramophone records, tooth-paste, lipstick, gin beer and brassieries. Production of almost all these items was already well-established in the country and it could get along very well without foreign help when the accords were approved.

The Public Undertakings Committee has also found that the public sector undertakings have been indiscriminately entering into foreign technical collaboration in spite of the fact that the required technology is available in India. In their 89th Report (Fifth Lok Sabha) they have given several instances of foreign collaboration by private parties when technology was available with local public undertakings. One such instance related to Nitroteloume which was obtained through foreign collaboration by a firm in Bombay when Hindustan Organic Chemicals, Poona, were having the know-how. Again, Indian Oxygen Limited had entered into a foreign collaboration for an oxygen plant when the Bharat Heavy Plate and Vessels, Vishakhapatnam, had the necessary know-how. Texmaco, Calcutta, had foreign collaboration for industrial boilers when BHEL, Trichi had the necessary know-how.

A list published by the Industrial Development Ministry in May, 1974 indicated that a Bombay firm was permitted to have collaboration with Singhnoria International of Italy to manufacture ready-made garments, another Bombay firm with a French firm for leather watch straps, an Allahabad firm with a British firm for sports goods and a Delhi firm with a U.S. firm for storage batteries. At the time when Hindustan Machine Tools (HMT) was engaged in mass production of a variety of wrist watches with Japanese collaboration, a Himachal Pradesh firm was allowed to have Swiss collaboration for the manufacture of wrist watches.

Even in the match industry, which should be the exclusive concern of cottage industry, it is a foreign multi-national company—Wimco—which holds the lion's share of production and sale. This company exploits the cottage workers and has cornered more than 60 per cent of the total production.

The instances can be multiplied, but those already quoted should show the indiscriminate manner in which foreign collaborations have been obtained in India.

The number of companies operating in India with wholly or predominantly foreign capital increased from 832 in 1971-72 to 1136 in 1976-77. These companies have been operating in selected sectors of highly sensitive nature, for example, extractive industries, plantations, drugs, chemicals, transport and equipment, motor vehicles and food processing, where the profit ratio to capital input and technology is high.

As at the end of March, 1974 the plantation industry owed as foreign liabilities an amount of Rs. 1136 million, Manufacturing industries took the lion's share with Rs. 10,732 million, followed closely by the service sector (like banking and insurance) with Rs. 5,635 million; petroleum accounted for Rs. 1·758 million and mining came last with Rs. 169 million. The hold that foreign sector has over plantations or extractive industries of a country, is normally regarded as an index of its economic backwardness or exploitation of its resources by foreigners. That is the reason why in most of the Asian and African states of the Third World, efforts have been continuously made to wrest these industries from foreign control. The continued dependence of India upon foreign control of its plantations and mining reflects the lack of sense of urgency in this regard. In the plantations where the foreign interests dominate the industry, 40% of tea production in India is in the hands of the Sterling companies which have converted themselves now into rupee companies but still have 74% share-holding allowed under the FERA (Foreign Exchange Regulation Act) guidelines. Tea is one of the traditional foreign exchange earners for India, and most of the tea exported is in the hands of these companies which are having linkages with their associates in other tea-competing countries like Sri Lanka and Kenya. Therefore, it is not difficult for them to fix or allocate prices and depress earnings in one area and raise the same in other areas through their centralised London auctions. The Public Accounts Committee of the Lok Sabha in its 15th Report (1977-78) have pointed out how the tea industry in India is in the grip of multinationals who have not only deprived the country of its legitimate foreign exchange earnings, but have also robbed the exchequer of its dues.

The total amount of remittances made abroad by foreign companies from India over the years 1968-69 to 1975-76, came to 6461 million rupees of which the highest amount was in the form of dividends working out to Rs. 2516 million rupees, interest coming next with Rs. 1292 million. Technical fees accounted for Rs. 1166 million and royalties Rs. 481 million. On an average this gives about Rs. 800 million per year but this 800 million only represents the visible remittances. The invisible remittances on account of over-charging the Indian affiliate of the company for head office expenditure, research and development expenditure, commissions paid to the foreign parent on account of exports, all add up to a considerable sum, and, owing to the secrecy which shroud the maintenance of accounts, the exact amount drained off through these methods cannot be estimated with accuracy. However, a study made by the Finance Ministry in India, and reproduced as Appendix II to the 176th Report of the Public Accounts Committee (5th Lok Sabha), has disclosed that the foreign companies have been charging the Indian accounts upto 78% as head office expenditure. When the matter relating to head office expenditure was being probed by the PAC, the I.B.M., one of the companies guilty of this malpractice, came forward with a voluntary disclosure admitting the excess claim of 4,50,000 US dollars.

There is yet another practice which depresses the Indian earnings, results in evasion of the Indian taxation as also in lowering of India's foreign exchange earnings. This practice adopted by all these foreign companies is known as transfer-pricing. The multi-nationals show a low profit for taxation in the developing countries and segregate all their incomes to tax havens or low tax countries. For example, while in 1976-77, the global income of the 25 multi-nationals was Rs. 1346 crores, the income shown as arising in India was just Rs. 32 lakhs.

The UN document on multi-nationals has estimated that one-fourth of the world's total trade consists of such inter-company prices which do not reflect the true price of imports and exports. In India such transfer-pricing has been adopted on a large scale in the case of many foreign companies and it was admitted before the PAC that the I.B.M. was constantly indulging in this practice. In the case of I.B.M. such inter-company billing rose from Rs. 1,40,00,000 in 1970 to Rs. 1,60,00,000 in 1971, Rs. 3,30,00,000 in 1973 and Rs. 4,10,00,000 in 1974.[2]

It is argued that foreign collaboration will bring us technical skill and promote research. But, in actual fact, the foreign companies have not been giving us the right sort of technology and, according to UN Tariff Commission, whatever technology transfer has taken place, has been third-line technology and subjected to severe limitations. Research and Development operations are exclusively carried out in the home country, and the developing country, which hires technology, is asked to pay a heavy price without any consideration whatsoever whether the research conducted for the worldwide operations in the home country of the multi-national is actually used or is being utilised in manufacturing operations of the receiving country.

Today, we have over 6,000 collaborations but we have yet to hear of any technical break-through achieved by these agreements in the use of indigenous raw materials. In fact, these agreements prevent indigenous research and make the country for ever dependent on foreigners.

Nearly 25 per cent of the foreign collaborations approved between 1956 and 1968 related to the top 20 houses and their share in the import of capital goods approved was 40 per cent; they made no noticeable efforts to develop indigenous technology. Since then the growth of foreign collaborations has increased still more rapidly and many of them have been linked with big business houses. Foreign capitalists prefer big houses and the latter prefer collaboration with foreigners. In almost every new or modern infra-structural industry that they have entered, the big business houses have done so with the help of foreign capital and technology. Nearly 40 per cent of their investment proposals approved,

2. Appendix VII—PAC Report 1975-76—221st Report.

involved foreign collaboration, and, according to Hazari, the import component of their investment was about 60 per cent.

The importance of large foreign companies as a component of Indian big business can be realised from the fact that, among the largest companies in India, about 20 to 25 are foreign companies. Their aggregate total assets were equal to 15 to 20 per cent of the aggregate total assets of the top 20 business groups. Besides, two of the top 25 big business houses—ICI and Parry—have very close foreign connections. The aggregate total assets of the largest 20 foreign companies have increased by 138 per cent during the period 1966-76.

The collusion between foreign capital and indigenous business has been well brought out by a Reserve Bank study on financial and technical collaboration in India's industry for the period 1964-70. The study related to 197 subsidiaries and 433 companies with minority foreign participation. It points out that the contention that these foreign companies earn foreign exchange, is not only a big lie but also a gigantic fraud on the country. During the six-year period, 1964-70, these foreign-owned companies with private collaboration imported goods worth Rs. 1,600 crores as against total exports of Rs. 729 crores. Thus, the net result to the country was a loss of Rs. 871 crores. Further, it is well known that these foreign companies over-value their imports and under-value their exports so that the net loss would be not less than Rs. 2,000 crores to Rs. 3,000 crores over the six-year period.

"During 1964-70", points out the 'Blitz' of Bombay in its comment on the Reserve Bank study, "capital employed by 197 subsidiaries increased from Rs. 633 crores to Rs. 1045 crores, giving an average annual increase of 11 per cent, while production grew by as much as 18 per cent. During the same period the loot generated by foreign companies aligned with indigenous capital was still greater. Their capital increased from Rs. 816 crores to Rs. 1765 crores, an annual growth of 25 per cent, and production by a spectacular 32 per cent a year. In comparison, the annual growth of industrial production of the country as a whole during the same period was a mere 4.5 per cent.

"Further, the total investment by these subsidiaries was Rs. 162 crores, whereas their remittances were Rs. 144 crores in six years. In the case of minority companies, investment was Rs. 96 crores, while direct remittances were Rs. 50 crores, and they have a whole lifetime to indulge in the loot."

An analysis shows that far from benefiting Indian industry collaborations had benefited the foreign companies in the following ways :

(i) a higher profit through royalties and technical fees can be drawn on a lower rate of taxation;
(ii) a fixed rate of interest on loans and credits for import of machinery and plant is assured free of tax under certain

provisions of the Indian Income Tax Act, subject to the approval of the Central Government;

(iii) preferential access is given to improvements made by the local licencee on the processes licensed;

(iv) licencee can be tied up to the purchase of raw materials, machinery and plant and spares from the foreign company or its associate at high cost, and

(v) exports can be restricted to certain specified areas and companies so as to maintain the world-wide hold that the foreign company has.

In fact, unless the Indian collaborator is vigilant and exercises proper care in accepting the terms of the foreign collaborator, the "relationship between the patent owner and licencee will fall into a kind of feudal formula of lord and vassal", as Walter Hamilton wrote in his *Cartels, Patents and Politics*. Thus, the foreign collaborations are there as a spider's web into which the Indian industry is being sucked and one has to be very watchful that the indigenous enterprise and skills are not sacrificed at the altar of foreign collaborations.

Although India needs foreign capital in certain sophisticated fields, it surely does not need it in areas where we know how to stand on our own feet. Mahatma Gandhi had told the British people that tender plants cannot grow under tall poppies and he warned the Round Table Conference as long ago as in 1932 that a Free India would chop off these tall poppies without paying them any compensation. We have, however, refused to act upon these prophetic words of Mahatma Gandhi and hesitated to break the monopolistic stranglehold of British industry over the economy of India.

The new strategy adopted by the Government of India of restricting ownership of equity to a minimum of 40% may not achieve the objective. Foreign equity to the block share of 40% itself would give a command in management and control of the company which will be decisive because, as against 40% controlled and held as a single block, a dispersed 60% in the hands of varied interests who cannot combine, would be ineffective. In fact, the U.S. Department of Commerce considers 10% equity in a foreign company as adequate to provide levers of control so as to consider that company as a U.S. affiliate. Therefore, mere conversion of ownership does not mean dilution of foreign *control*. The foreign companies have realised this and so readily accept the scheme. Further, they are also changing their techniques of selling engineering services, drawings and designs by itemising these and asking for separate fees in lumpsum cash payments at rates which are exorbitant. The Pilkington of U.K. signed a five-year agreement with Somani Pilkington making available the technical know-how, plant lay-out, selection of machinery, secret processes and formula needed to manufacture glazed tiles. For this Pilkington was paid Rs. 30,00,000 in a lumpsum and 1.5% on sales. In addition they are getting Rs. 80 to Rs. 90 lakhs for additional know-how process.

Chemtex Fibres of U.S. similarly agreed to assist Shree Synthetics in establishing a nylon and polyster filament yarn plant on a contract for receipt of Rs. 1.8 crores as lumpsum payment in addition to equity shares of 20%.

It has also been seen that there has *in fact* been no dilution of foreign equity by virtue of the application of FERA guidelines. The foreign interests keep their equity intact in absolute terms but as a reduced *percentage*, by increasing their capital base for which the Indian Government has been very generous in according approval. In this process the following benefits have accrued to foreign interests :

(i) the existing share remained intact or had actually increased in absolute terms ;
(ii) by issuing the shares at a premium the existing shares get strengthened in value, and
(iii) if the percentage to the total capital expansion is less than the prescribed percentage there is actually a further allotment to foreign interests increasing their dividend earnings.

An analysis made by the 'Financial Express', dated 3-4-1978, has shown that after the dilution process the paid-up capital of several foreign companies increased by 9.4%, the dividend declared went up by 58.9% and the gross profit of 30 foreign multi-nationals increased from Rs. 127.36 crores to Rs. 153.33 crores.

Thus, it is fallacious to compare the total investment of foreign companies in India with the total investment in the public or private sector. It is the malpractices committed and the dominant influence exercised over a particular sector, which are of considerable importance to the economy that have enabled the foreign companies to hold the economy of this country in a deadly grip. The people of India will, however, be astonished to know that despite all that has been stated above, foreign companies were permitted as recently as in 1975 to expand their capacity by 25 per cent.

So that the apprehensions voiced at the time the policy was adopted, have come true. Foreign collaboration has simply turned out to be another name for the loot of India's financial resources. Possessing neither capital to the required degree nor technological knowledge to the required standard, we are caught in the never-ending cycle of relying on other nations for assistance. Like that of most other poor nations, economic development of India has, thus, now become tragically dependent on foreign technology. When you invite a blind person to dinner you have to make preparations for two. The two were inseparable. In fact, the two were knowingly invited as separate entities. In addition to capital, availability of foreign technology was the main reason behind the policy of 'collaboration'. There was no public speech in which Nehru did not refer to India's need for 'advanced' technology, refusing to see that the 'advance' consisted not in increasing production per unit of land or capital investment but per worker employed or per entrepreneur—leading to wide disparities in incomes, unemployment and concentration of economic power—the very ills which our founding fathers had wanted to eradicate, and said so in the Constitution. On the other hand, there are the examples of China and Japan. China has struggled against impossible odds for the last 20 years, that is, since the USSR recalled its technicians from China, to shun foreign models and foreign aid and find indigenous solutions to their problems. So far as Japan is concerned, it has been importing foreign technology only when inevitable, but not foreign equity capital or management. According to Japanese economists, "this has had the effect of encouraging the development of local entrepreneurship and has prevented the formation of 'foreign enclaves' in the economy, which is often the case in the under-developed countries".

In countries like Yugoslavia, which allow equity holdings, a multi-national corporation is allowed to repatriate profits only after a 35 per cent wealth tax, in addition to wages, an additional social security tax, pay-roll tax and communal tax has been paid. Further, it is the experts of Yugoslavia, who are in charge of managements and the joint equity holdings are only for a specified number of years (up to ten) after which the foreign interest is removed.

Besides the financial consequences of our policy, there is yet another very sinister aspect of the matter. Through sheer size and command over resources, the multi-national corporations, in some of the countries where they operate, have acquired a power greater than that of their governments. In our own country, allegations have been made from time to time about subtle interference in political affairs by some foreign firms. Two big American multi-nationals and one British multi-national have made disclosures before Courts that separate funds were maintained by them for a variety of purposes including payment in India to political parties, labour leaders and government officials. Some idea of how they can influence political developments can be had from the statement of the late Fakhruddin Ali Ahmed made in the Lok Sabha on April 12, 1968 about the contribution of one such corporation to the various political parties, including :

Swatantra Party	Rs. 14,64,155
Congress	Rs. 10,06,000
Jan Sangh	Rs. 5,12,200
Jan Congress	Rs. 2,25,000
Sheikh Abdullah's National Conference	Rs. 2,08,000

Forty American Companies—many of them widely believed to be liaison offices which in turn probably deal with Indian officials—made donations to political parties, spent money to maintain lobbies inside the Government and in the Parliament and provide other inducements such as liquor supplies, entertaining in luxury hotels and hospitality outside India when officials travel abroad. This was an allegation made in an American journal in May, 1975 and was brought to the notice of Rajya Sabha by a responsible Member on 14-5-1975.

It was in the sixties that the Industrial Licensing Committee had complained : "We have been struck by the fact that even basic data about the terms of all collaboration agreements, leave alone how they have operated in practice, are not available with the Government." It asked for steps to plug this "information gap".

No such attempt has yet been made : perhaps none will ever be made; the ruling elite, represented by deliberately over-paid employees of foreign concerns, is too deeply involved for any such probe.

In his reply to the Lok Sabha, the then Union Finance Minister, Mr. Chavan, had non-chalantly stated that while the total foreign private investment in India at the end of March, 1971, was *tentatively estimated* at Rs. 1320 crores, *he had no authentic record.*

In his speech in the Lok Sabha in 1974, Shri Jyotirmoy Basu, MP, referred to the 'Illustrated Weekly of India', Bombay, as saying :

> "Call it neo-colonialism or use any other words : the fact is that foreign firms have bled the country white. No one has ever computed the cost, let alone taken effective measures of control, because so many politicians and bureaucrats along with company executives have a finger in the pie. Worse, all this has debased morality and turned the elite into zealous torch-bearers of degrading coca-cola-cum-chewing gum culture."

R.K. Hazari and H.G. Lakhan who surveyed 88 pharmaceutical firms in Maharashtra where the bulk of the industry is still located, found that "in 1964 the wholly foreign-owned companies were each earning a cash profit (profit after tax before depreciation) which would bring their investments back within two years. Foreign majority companies were taking a little more than four years to get back their investments".

This pattern has been fully borne out on a wider scale, according to *Foreign Investment in India—A Study*, by Michael Kidron : "During the fourteen years, 1948 to 1961, for which data exists, in which foreign investment stake has more than doubled, foreign investors as a whole have taken out of general currency nearly three times as much as they contributed directly."

To give a few examples relating to particular firms :

Coca-Cola Export Corporation : The only thing Indian was water ; the concentrate, a trade secret, came from America. It had initially four bottling plants ; later on, it had 22 and employed 6,000 people directly and 1,00,000 indirectly. In 1970, on a share capital of Rs. 6,60,000, it earned a net profit post-tax of Rs. 60,57,000 and paid Rs. 1,03,33,000 as dividends—just 1,566 per cent of share capital. In 1972-73, it was issued Rs. 16 lakhs free foreign exchange.

Colgate-Palmolive : It is an American multi-national with annual sales of more than 12 billion dollars. On an investment of Rs. 1.5 lakh in India, it remitted to its principals Rs. 41.76 lahks in 1968-69, Rs. 82.39 lakhs in 1969-70, and Rs. 76.16 lakhs in 1970-71. In 1970 it earned a net profit, after tax, of Rs. 1,00,54,000 and distributed Rs. 72,91,000 as dividends, making 4,860 per cent of share capital. So far they have carted abroad a sum of Rs. 50 crores.

M/s. Pfizer India Limited, a drug manufacturing firm, had repatriated Rs. 482.87 lakhs towards dividends on foreign holdings during 1969-71 as against their foreign equity capital of Rs. 420.03 lakhs. In reply to a question on the floor of the Lok Sabha, the Petroleum and Chemical Minister, Mr. H.R. Gokhale, vouchsafed on November 15, 1971 that the firm had started business in 1950 with an initial share capital of Rs. 5 lakhs only.

Abbot Laboratories had invested Rs. one lakh and now remits to the USA about Rs. 23 lakhs annually.

Said an article in the 'Blitz' Independence Day Special Number, August 15, 1974 : "Biscuit Company made a profit of Rs. 95,83,000—23 per cent of share capital in 1970. Recently it was allowed to expand its empire, hastening the end of weaker native enterprises."

14

Private Sector and Concentration of Economic Power

In pursuance of a directive principle contained in the Constitution, the Indian National Congress pledged itself by way of its manifesto issued on the occasion of the Lok Sabha elections in March 1971 "to prevent concentration of economic power and wealth in a few hands, as this is inconsistent with the concept of democracy and social justice". But, as in other spheres, the pious platitudes expressed in official documents have been totally and conspicuously flouted by the course of objective development.

Table 110 taken from an article by A. N. Oza entitled 'How Big is India's Big Business ?' published in the 'Illustrated Weekly of India', Bombay, dated 18th September, 1977, gives the data, relating to the size and growth of the largest business houses from 1951 to 1975 in terms of their total (net) assets.

This statement presents information in respect of 27 industrial groups or houses placed according to their ranking by size of assets in 1971 according to a compilation of the Department of Company Affairs. The statement presents the value of assets of these houses in the years 1951, 1958, 1963, 1966, 1971 and 1975-76 based on the figures taken from different sources. These figures for various years, however, are not strictly comparable with each other because the criteria kept in view in the different studies for identifying the various concerns belonging to each industrial house, have not been the same, even though all of them had the same objective, namely, of identifying concerns controlled by what may be known as 'house masters'. For example, the figures for 1951 are in respect of public limited companies only while those for 1958 include information for private limited companies also. Secondly, as regards 1963 the statement gives figures as published in the Monopolies Inquiry Commission (MIC) Report, but in the case of Birla and Soorajmull Nagarmull

TABLE 110

Size and Growth of Big Business Groups : Total Assets

(In crores of rupees)

Business Group	*1951 (R.K.H. Report)*	*1958 (R.K.H. Report)*	*1963 (MIC Report)*	*1966 (ILPIC Report)*	*1971 (Deptt. of Com. Affairs)*	*1975-76 (Economic Times)*	*%age of increase between 1963 and 1971*	*%age of increase between 1972 and 1975-76*
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
Tata	116	303	418(1)	505(1)	818(1)	975(2)	96	42.2
Birla	153	294	304(2)	458(2)	726(2)	1065(1)	139	46.7
Mafatlal	13	25	46(16)	93(7)	235(3)	284(3)	411	29.9
Martin Burn	41	112	150(3)	153(3)	173(4)	173(4)	15	—
Bangur	20	54	78(5)	104(4)	149(5)	196(7)	91	40.0
Thapar	16	47	72(7)	99(5)	145(6)	204(6)	101	54.7
I.C.I.	—	—	37(19)	50(20)	137(7)	182(10)	270	24.3
A.C.C.	22	49	77(6)	90(8)	129(8)	169(12)	68	23.3
Shri Ram	12	27	55(12)	74(10)	128(9)	187(8)	133	35.6
J.K. Singhania	37	39	59(10)	67(12)	119(10)	224(4)	102	63.8
Soorajmull Nagarmull	—	—	81(4)	96(6)	114(11)	—	41	—
Walchand	13	20	55(11)	81(9)	103(12)	135(17)	87	35.9

(*Contd.*)

(*Table 110 Contd.*)

1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
Sarabhai	—	—	43(17)	57(16)	97(13)	183(9)	126	40.9
Killick	—	—	42(18)	51(13)	—	139(16)	—	48.8
Macneil Barry/Binny	—	—	50(13)	57(15)	97(14)	—	94	—
Kirloskar	2	6	19(36)	43(23)	95(15)	177(11)	400	54.8
Bajaj	—	—	21(30)	35(18)	N.A.	143(15)	—	51.1
Sahu Jain	130	257	68(8)	59(14)	93(16)	—	37	—
Scindia	25	48	47(14)	56(17)	90(17)	217(5)	92	70.9
Bird Heilgers	34	47	60(9)	69(11)	85(18)	—	42	—
Larsen and Toubro	—	—	—	—	—	114(19)	—	109.0
Goenka	—	—	47(15)	65(13)	79(19)	—	68	—
Kasturbhai	13	22	34(21)	51(18)	79(20)	109(20)	124	27.3
Lalbhai								
Modi	—	—	11(55)	19	—	116(18)	—	86.4
T.V. Sundaram Iyengar	—	—	22(27)	44(22)	74(21)	—	236	—
Mahindra	1	12	20(33)	38(26)	72(22)	144(14)	260	73.2
Parry	—	—	12(52)	42(24)	70(23)	148(13)	483	33.2
Total of top 20 groups	648	1,362	1,823	2,335	3,688	5,111	102.3	45.3
Total of top 10 groups	594	1,250	1,367	1,753	2,759	3,717	102.8	43.3

MIC=Monopolies Inquiry Commission. ILPIC=Industrial Licensing Policy Inquiry Committtee. R.K.H.=R.K. Hazari.
Figures in brackets indicate rank.

Groups the figures for the two kinds of companies, private limited and public limited, shown in the report under G. D. Kothari and British India Corporation groups, have been added together. Thirdly, the figures for 1966 and 1971 are broadly based on the same set of companies, though even here some changes have taken place. Fourthly, the basis for the figures published by the 'Economic Times' for 1975-76 is not known. Perhaps, the journal considered several companies as belonging to the respective groups even though they were not registered under the Monopolies and Restrictive Trade Practices (MRTP) Act.

Later, however, only those companies or undertakings which were registered under Section 26 of the Monopolies and Restrictive Trade Practices (MRTP) Act have come to be regarded as large industrial houses for purposes of industrial licensing policy as envisaged in the revised policy announcement of February, 1970. The following statement shows the assets in 1972 and 1977 of the top 20 large Industrial Houses ranked by size of assets in 1977 (as per Registration under Section 26 of the MRTP Act as on 30-6-1978) :

TABLE 111

S. No.	*Name of the House*	*Assets Rs. crores*		*%age increase in 1977 over*
		1972	*1977*	*1972*
1.	Birla	589.40	1070.20	81.6
2.	Tata	641.93	1069.28	66.6
3.	Mafatlal	183.74	285.63	55.4
4.	J.K. Singhania	121.45	267.31	120.1
5.	Thapar	136.16	215.92	58.6
6.	I.C.I.	135.21	209.97	55.3
7.	Scindia	107.70	200.04	85.7
8.	Oil India	104.04	199.95	92.2
9.	Bhiwandiwalla	45.91	189.44	312.6
10.	Bangur	125.26	188.24	50.3
11.	Larsen and Toubro	79.03	185.91	135.3
12.	Shri Ram	120.77	179.77	48.9
13.	A.C.C.	134.36	168.86	25.7
14.	Kirloskar	86.46	160.96	86.2
15.	Hindustan Lever	77.87	143.59	84.4
16.	Khatau (Bombay)	75.44	138.82	84.0
17.	Sarabhai	84.44	136.96	62.3
18.	Walchand	99.47	132.81	33.5
19.	Macneill & Magor	64.80	132.55	104.6
20.	Mahindra & Mahindra	58.49	125.49	114.5
	Total	3071.98	5401.70	75.8

The above statement shows that the total value of assets of the top 20 large industrial houses or groups in the country covered by the Monopolies and Restrictive Trade Practices (MRTPC) Act, rose from

Rs. 3071.98 crores as on April 1, 1972 to Rs. 5,401.70 crores as on March 31, 1977, the overall increase being 75.8 per cent.

The Birlas recorded a growth rate of 81.6% during the period, while the Tatas recorded a growth rate of only 66.6 per cent. However, the top honour for growth rate went to Bhiwandiwalla (312.6%) to improve its ranking from the 20th position to the ninth position, followed by Larsen and Toubro (135.3%) improving its ranking from the 15th position to the eleventh position. J.K. Singhania recorded a growth rate of 120.1% to improve its ranking from the 8th position to the fourth position during the period.

The Birlas again topped the industrial world in total assets and profits during 1978, with Rs. 1171.15 crores and Rs. 98.81 crores respectively.

According to figures furnished by the Law Minister Shiv Shankar in the Lok Sabha on 11-3-1980, the Tatas came next with Rs. 1102.11 crores in assets and Rs. 51.24 crores in profits.

The following were the assets, turnover and profits of the top 20 industrial houses in 1978 :

TABLE 112

Sl. No.	*Name of Industrial House*	*Value in assets*	*Rs. (crores) turnover*	*P.B.T.*
1.	Birla	1,171.15	1,374.56	98.81
2.	Tata	1,102.11	1,367.60	51.24
3.	Mafatlal	317.86	475.41	39.07
4.	J.K. Singhania	299.57	318.52	13.50
5.	Thapar	244.06	367.19	20.24
6.	I.C.I.	228.73	308.87	26.38
7.	Bangur	220.86	341.13	13.27
8.	Shri Ram	204.79	335.80	8.35
9.	Oil India	203.24	423.39	15.67
10.	Scindia	202.81	92.60(—)	7.77
11.	Larsen and Toubro	194.51	169.09	19.52
12.	A.C.C.	186.62	183.02	15.63
13.	Bhiwandiwalla	178.38	61.18(—)	8.57
14.	Kirloskar	176.25	199.10	9.11
15.	Hindustan Lever	157.15	370.20	28.32
16.	Chowgule	149.96	40.23(—)	2.73
17.	Khatau (Bombay)	143.12	235.02	13.71
18.	Kasturbhai Lalbhai	140.00	202.98	22.25
19.	Mahindra and Mahindra	137.18	139.65	5.85
20.	Walchand	135.70	135.50(—)	1.70
	Total	5798.0		

The Department of Company Affairs compiles information from time to time about assets of undertakings belonging to large industrial houses only on the basis of registrations under Section 26 of the MRTP

Act. But the definitions of the terms 'undertaking' and 'inter-connected undertakings' laid down in the MRTP Act have enabled several companies belonging to the large houses such as Tata, Birla, Bangur, Sahu Jain, etc. listed by the MIC (Monopolies Inquiry Commission) and the ILPIC (Industrial Licensing Policy Inquiry Committee) to remain outside the purview of the MRTP Act. For, the responsibility for registration under Section 26 of the MRTP Act rests with the undertaking itself. It is for them to verify whether the provisions of Section 20 (a) or 20 (b) are applicable to the facts of their case and they register themselves under Section 26 only if, in their opinion, the provisions of Section 20 (a) do apply. The companies take full advantage of whatever loopholes and imprecisions may be present in the existing provisions of the Act to avoid registration. Nor, owing to judicial pronouncements, has it been possible to apply the MRTP Act to purely investment companies. So, as the following figures indicate the number of undertakings belonging to the different houses which have actually registered themselves under Section 26 of the MRTP Act is much smaller than the number of companies listed by ILPIC in 1966 and the Department of Company Affairs in 1971 and 1977 :

TABLE 113

Sl. No.	*Name of Business House*	*ILPIC (1966)*	*Department of Company Affairs (No. of companies)*	
			1971	*1977*
1.	Tata	60	60	32
2.	Birla	194	190	70
3.	Mafatlal	20	20	14
4.	Martin Burn	20	20	—
5.	Bangur	85	82	44
6.	Thapar	49	48	35
7.	I.C.I.	6	7	7
8.	A.C.C.	5	5	5
9.	Shri Ram	23	22	14
10.	J.K. Singhania	44	41	28
11.	Soorajmull Nagarmull	101	97	9
12.	Walchand	27	24	20
13.	Sarabhai	27	26	11
14.	Killick (Kanodia)	17	17	13
15.	Macneill & Magor	40	34	34
16.	Kirloskar	15	18	15
17.	Bajaj	21	22	29
18.	Sahu Jain	27	21	1
19.	Scindia	8	7	3
20.	Bird Heilgers	57	55	26
21.	Larsen and Toubro	—	10	10
22.	Goenka	56	50	5
23.	Kasturbhai Lalbhai	19	21	14
24.	Modi	11	9	9
25.	T.V.S. Iyenger	21	18	19
26.	Mahindra and Mahindra	27	16	13
27.	Parry	10	10	9
	Total	980	950	489

non-plan or low-priority industries, and (ii) to seek coordinated establishment of new industrial capacities to avoid duplication and wasteful use of national resources.

The following table shows the distribution of excess installed capacities according to the class or nature of association of the companies involved. The largest number of excess capacity cases belong to Multinational Corporations and Indian Monopoly Houses. Between themselves they account for nearly two-thirds of the excess capacities.

TABLE 114

Distribution of Excess Installed Capacity Cases according to the Nature of Association of the Companies

Sl. No.	*Nature of Companies*	*Upto 25%*	*25.0-25.9*	*26.0-49.0*	*50.0-99.9*	*100.0 and above*	*Total*
1.	Multi-nationals	45	27	33	26	69	200
2.	Indian Monopoly Houses	77	20	24	17	31	169
3.	Others	70	19	35	34	38	196
	Total	192	66	92	77	138	565

The largest number of cases, and particularly those having more than 25 per cent excess installed capacity, is of Multi-national Corporations. This needs to be viewed in the background of the total number of FERA (Foreign Exchange Regulation Act) companies (which stood at 492 during 1979). As against this, the number of MRTP Act and Dutt Committee—listed companies of the Indian Monopoly Houses would be nearly 1,500. The total number of the Multi-national Corporations (FERA companies) engaged in industrial activity is small. For instance, in 1978, the number of subsidiaries of foreign companies was only 204. In terms of size, there were nearly sixty MNCs only which can be considered to have significance in the national context. Therefore, the fact that the largest number of excess capacity cases are of the MNCs, would suggest that foreign companies, in general, show little respect for Indian regulatory legislation. It should also be noted that since foreign private industries are *supposed* to be operating only in such industrial activities where indigenous technology is not available, the MNCs in India would invariably enjoy a monopoly position in the economy. Thus, the fact that MNCs would now be the main beneficiaries of the new industrial policy throws a variety of serious issues with regard to the processes of decision-making at the Ministry and national levels. According to a reply given in the Lok Sabha on November 18, 1980 by Government five letters of intent have already been granted for the manufacture of drugs between January and September, 1980. The Companies are Abbot Labs Pvt. Ltd., CIBA Geigy of India Ltd., Pfizer Ltd. and E. Merck Ltd. (two).

As regards the Indian Monopoly Houses the most striking case is that of the Birlas, with 46 instances. The second position is of the Tatas with 8 products, followed by Bangur, and Walchand with 7 cases each. In view of the most prominent place occupied by the Birlas it may be pertinent to reproduce the observations which the Dutt Committee made with regard to this House in the Lok Sabha in this connection :

> "...The twenty Larger Industrial Houses obtained a share which was slightly higher in some respects than others in the private corporate sector. But whether in the case of individual products or in regard to individual Large Houses and Large Companies, disproportion is observed only in the case of few, the most prominent among them being Birla." (emphasis added)

Such is the factual position with regard to excess capacity instances as existing during 1978 and 1979. As for 1980, the capacity expansion of 34 industries that had been allowed after the budget had been approved by Parliament in following August, worked out to 156 per cent of the original licenced or registered capacity. Out of these, 19 industries were allowed the facility of 25 per cent automatic growth above their existing licenced or registered capacity in a period of five years. The implications are only too obvious.

Now it is for the policy-makers to decide whether they would still like to opt for a policy of regularisation which would be at the cost of other national policy objectives like (i) protection and promotion of small-scale industries, (ii) development of indigenous technology and enterprise, (iii) avoidance of concentration of industrial production in a few private hands, and (iv) reduction of regional disparities.

The big business houses have made no noticeable effort to develop indigenous technology despite the vast human and other resources at their command. As the reader will see in the next sub-chapter, in good measure their growth is dependent upon import of foreign technology and capital. Big business has also made little effort to raise capital on its own for the large projects that it has set up. As least 50 per cent of its project cost is financed by public sector financial institutions. The lion's share of the flow of institutional finance has gone to the big business houses. In this respect, too, they have an edge over their small and medium-sized rivals.

Such is the record of greed and chicanery of the big business, and such, the record of failure of the Government of India under the stewardship of Smt. Indira Gandhi—despite a statement of Pandit Nehru made some six months before his death. He confessed in the Lok Sabha on December 11, 1963 that planning should not lead to heavy accumulation of wealth in the hands of a few, but that both the Government and the Planning Commission had failed to take effective measures to prevent accumulation. He promised to do so more effectively in future, but then it was too late. His exact words were :

> "I think it is highly objectionable and it ought to be prevented, namely, economic power to be in the hands of small groups of persons, however able or good they might be. That is our broad approach. If you put this approach to the Planning Commission, immediately they have to deal with questions of production, both in the private sector and public sector, question of preventing accumulations, etc. They have not done that very effectively, I will confess. I hope they will do so in future more effectively and our Government will do so more effectively too, in spite of the difficulties that may arise from Honourable Members opposite."

In the light of all this, it is not at all surprising that big business—*and the newspapers they control*—went out of their way to support Mrs. Gandhi during the Emergency. They very well knew that the Emergency would greatly enhance the advantages they enjoyed. It meant that there would be no Parliament and no Opposition MPs to hamper or pry into their contacts with the real rulers. There would be no trade unions to squeeze their profits and irritate their loyal managers. And, if Mrs. Gandhi was going to confer all these benefits on them in the name of the down-trodden and in the name of democracy, they surely had nothing to lose but a lot to gain by the Emergency. To them, the gains of the Emergency far exceeded the sacrifice of a few of their brethren like Goenka or Viren Shah. After all, the interests of a few recalcitrant individuals could not be allowed to transcend the interests of big business as a class.

Historically speaking, points out A.N. Oza, in Germany as well as in Japan, big business was instrumental in destroying parliamentary democracy. Even in the USA, the 'greatest' democracy, big business supported Nixon in his authoritarian politics. It was not for nothing that President Eisenhower had warned his people about the dangers of the 'military-industrial complex'. The role of the big business in India during the Emergency shows that it is no exception to this rule.