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UNEMPLOYMENT, FULL EMPLOYMENT AND INDIA

INDUSTRIAL LABOUR IN INDIA

MEN WITHOUT WORK

S T U D I E S I N I N D I A N ECONOMIC PROBLEMS

BY

NABAGOPAL DAS, Ph.D. (ECON.) LOND., I.C.S.

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PREFACE

Most of the essays contained in this book were written during the past eighteen months and appeared in the columns of the *Statesman* of Calcutta and New Delhi. A few also appeared in such commercial and financial journals as *Capital* and *Indian Finance* of Calcutta and *Commerce* of Bombay. I am deeply grateful to the editors of these newspapers and journals for having permitted me to incorporate these essays, with suitable modifications, in the present volume.

The re-publication of these studies in their present form is in response to requests I have received from many readers. Such requests have come from various quarters—from members of Parliament and State Assemblies, from businessmen and industrialists, from persons holding high office under Government, and, lastly, from students of a number of universities. I only hope that this handy volume will be of some use to those for whom it is intended.

In conclusion, I would like to add that the views expressed in these essays are entirely my own and should not be taken to reflect those of Government.

N. DAS

CALCUTTA:
15th December, 1954.

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THE FIVE YEAR PLAN: AN EVALUATION AND THE FUTURE

We are now at the end of the fourth year of the first Five Year Plan. The present Plan period ends on the 31st March, 1956, and already the Government of India are thinking of the priorities and programmes which should be laid down for the second Five Year Plan. It would, therefore, be worthwhile to consider with what objectives in view the present Plan was launched in 1951 and to what extent these have been attained.

The central objective has been set out in the opening sentence of the Plan itself. It is "to initiate a process of development which will raise living standards and open out to the people new opportunities for a richer and more varied life." Mark the two words "initiate" and "process". The authors of the Plan have clearly recognised that, in the initial stage, only a beginning can be made. Secondly, whatever the Plan hopes to achieve during the first quinquennium is no more ambitious than an instalment in a series of development programmes. While, therefore, the Planning Commission recognises the need for looking beyond the immediate possibilities and for viewing the problems in terms of continuing and overall requirements, it also under-

lines the wisdom of the principle that, in formulating a plan of development for a particular period, an estimate of what is feasible must carry greater weight than abstract reasoning as to a desirable rate of growth.

What did the Plan set out to achieve in concrete terms? The programme of development incorporated in the Plan is made up as follows:—(a) Agriculture and Community Development: Rs. 360·4 crores, (b) Irrigation and Power: Rs. 561·4 crores, (c) Transport and Communications: Rs. 497·1 crores, (d) Industry: Rs. 173 crores, (e) Social Services: Rs. 339·8 crores, (f) Rehabilitation and Miscellaneous: Rs. 137·0 crores—Total: Rs. 2,068·7 crores. In terms of percentages, agriculture, irrigation and power account for 44·6% of the total expenditure, transport and communications 24%, industry 8·4%, social services 16·4% and rehabilitation and miscellaneous items of expenditure 6·6%. The figure has been recently raised to Rs. 2,244 crores.

Now, according to the latest figures, expenditure till the end of 1953-54 was over Rs. 1,000 crores. Viewed against the background of the fact that the Plan did not actually get going until late in 1951-52, this is not a bad record, and, measured in terms of money, we may say that the target set by the Planning Commission is likely to be reached by the due date. If there is any shortfall, it will perhaps be negligible.

Much more important than actual expenditure, however, is the attainment of the physical targets set forth in the Plan. The Plan visualises specific increases in production in various sectors, *e.g.*, food grains, other agricultural crops, irrigation projects, electrical energy and a number of industrial products, and also envisages that, at the end of 1955-56, there would be 213·5 thousand tons of additional shipping and 3·6 thousand miles of additional roads, besides considerable increase in the number of schools, hospitals, dispensaries, panchayets and co-operative societies. It has been estimated that, as a result of all the expenditure to be incurred by Government, the net value of agricultural out-

put (including forestry, animal husbandry, fishery, etc.) will rise from Rs. 4,150 crores in 1948-49 to Rs. 4,880 crores in 1955-56. In other sectors of economy also, similar, though less spectacular, advances are expected. The total net increase in national output resulting from the implementation of the Plan is put at something like Rs. 1,000 crores.

The above does not take into account the increase in national output likely to result through an intensification of private investment. The Planning Commission, therefore, prepared a separate list of investment programmes in the private sector of the economy. The total value of these programmes has been put at Rs. 233·3 crores (this excludes an investment of Rs. 150 crores for replacement and modernisation). The heaviest of these private investments are to occur in the petroleum refining industry (Rs. 65 crores), iron and steel industry (Rs. 43 crores), power development in the private sector (Rs. 16 crores), and consumer industries (Rs. 37 crores). According to the Planning Commission, the value of the additional net industrial output in the private sector will be of the order of Rs. 300 crores at the end of the first quinquennium.

Taking the public and private sectors together, the net addition to the national income will thus be Rs. 1,300 crores over the level prevailing in 1948-49. In other words, the net national income would rise from Rs. 8,700 crores in 1948-49 to Rs. 10,000 crores in 1955-56. Assuming that the population in 1955-56 would be in the neighbourhood of 375 millions, this would result in a per capita income of Rs. 266 in 1955-56 as compared to Rs. 255 in 1948-49. In terms of employment, the Planning Commission has estimated that the Plan, in all its operations, would provide employment to some 5·25 million additional workers.

To what extent have the above physical targets been reached so far? Food production at the end of 1953-54 shows an impressive rise of about 7·7 million tons as against a target of 8·9 million tons at the end of 1955-56. There has been sharp increase in the production of rice, wheat

and cereals like barley, jowar, bajra, ragi and other millets. There has also been a big increase in industrial production—the index having risen from 100 in 1946 to 142·1 in February, 1954. In specific spheres, the index has risen to spectacular heights: the figure for cement, for example, was 245·1 in 1953 as against 100·7 in 1948; that for chemicals was 515·6 in 1953 as against 102·7 in 1947; that for general engineering and electrical engineering was 258·6 in 1953 as against 136·5 in 1948. On the other hand, the increase in manufactured cotton cloth was only 25 per cent more in 1953 than in 1949; in coal the increase was only 14%; in steel ingots and metal castings, the increase was only 11%; and there was a distinct fall in jute manufactures.

Although the increase in industrial production has not been as high as it should have been at the end of the third year of the Plan, one should not fail to take into account the potential productive capacity which has been installed during these years. In many sectors, the installed capacity happens to be much higher than the actual production (this is particularly true of the various engineering items, chemicals, dyestuffs and drugs, bicycles, vegetable oil products, soap and cosmetics, paints and varnishes, rayons, leather products and food industries) and it would not be unreasonable to hope that, given favourable circumstances, production can be stepped up by at least another 50 per cent before the end of 1955-56. It should not also be overlooked that the actual index of industrial production does not tell the whole story. Many new industries have come into existence and industrial enterprise has flown into many new channels ever since the Plan was put into operation. The full fruits of such ventures can be garnered only in later years, and it would not be unduly optimistic to hope that the rate of progress may suddenly become unexpectedly fast as the present Plan period draws to a close.

Another way of measuring industrial growth is by assessing investment in industry. Unfortunately, no precise data exist of the actual investments made in the private

sector. It has been estimated by the Federation of Indian Chambers of Commerce and Industry that during the period 1946-51, the rate of investment in industry was of the order of Rs. 90 crores per annum and that during the two succeeding years, the investment was about Rs. 100 crores per annum. These figures, however, include working capital borrowed from banks, and it is, therefore, difficult to say how much of them represents net capital investment. The figures of the paid up capital of joint stock companies in India, however, show that during the periods 1951-52 and 1952-53, the total additional investments were only Rs. 60 crores and Rs. 32 crores respectively in the sector of industries (including mines and quarries). To this may be added the capital expenditure of Rs. 60 crores incurred by the oil refineries. To many, this does not appear to be a very satisfactory state of affairs when viewed against the target of Rs. 233·3 crores set by the Planning Commission for the private sector.

We thus see that, from the point of view of the targets envisaged in the Plan, the progress achieved has been rather slow in some spheres. It is true that the money expenditure incurred in the public sector has been more or less in keeping with the tempo of the Plan, but the progress of the Plan should be appraised, not in terms of money spent, but in terms of the effects of the expenditure on economic life. It is in this context that one must view with concern the undoubted fact that the additional employment secured has been much less than what was envisaged in the Plan. The Plan should not be viewed as a sort of super-budget. Instead, we should analyse it in terms of social cost-accounting so as to bring out the real achievements of the Plan.

This brings us to a consideration of the fundamental issues at stake. The Plan, as it stands now, is mainly a Plan of public expenditure in which the emphasis is on the construction of irrigation and power projects, on the development of productivity of agriculture through the adoption of advanced techniques and on the improvement of trans-

port facilities. It is easy to criticise the Plan and say that there is no well-defined plan for the re-organisation of agricultural production (abolition of landlordism by itself will not increase the productivity of agriculture). It is equally easy to argue that there is no planned programme of industrial development. While pleading for "mixed economy"—a phrase which has been interpreted by those in authority in diverse fashions to meet diverse situations—the Plan, according to many critics, has not attempted a fairly intelligible division between the public and private sectors of industry. On the other hand, various ancillary considerations—considerations which are not vital to proper planning of industrial development—are said to have coloured the judgment of those who are in charge of execution of the Plan. The result has been that the industrial section of the Plan has pleased nobody: while private enterprise continues to chafe under the controls imposed by Government and interference indulged in by a bureaucracy which often lacks imagination and initiative, those who pin their faith in nationalisation are also unhappy because the Plan has not provided any rational programme of assumption of control by Government. The situation is further complicated by the special pleadings of persons who would like inefficient village industries to be artificially bolstered up and by representatives of labour who must oppose rationalisation and efficient management simply because they may lead to temporary displacement of labour.

According to these critics, another drawback of the industrial section of the Plan is that it is a programme mainly for immediately increasing the supplies of consumer goods. Those who hold this view urge that, in a balanced industrial plan, the aim should be to strengthen the heavy and capital goods industries first. This may require a certain degree of sacrifice on the part of the consumers in the short period, but, according to them, the ultimate well-being of the country lies in buttressing the basic structure, and that, once the base has been truly and securely laid, the

flow of consumer goods would be a comparatively easy process. The economic history of countries which have been developed in the shortest possible time shows that while their journey was sometimes bitter and often arduous, emphasis was laid, at least in the earlier stages, on the building up of capital goods industries. Consumer goods which add variety to the humdrum pattern of life did not assume a significant rôle until towards the end of the planning stage.

While it is not disputed that the Five Year Plan which is in actual operation now could have been improved upon, we should guard against the dangerous luxury of preaching wisdom after the event. Let us not forget that, in India, "the central aims of planning were set by the character of her long-term problems—increasing population, continued low productivity of land, low rates of capital formation and per capita income, excessive dependence on land and the imbalance between agriculture and industry, slow economic progress and persistence and growth of inequalities in the distribution of wealth and income". In addition, there were the immediate problems created by the war and post-war conditions and also by the partition of the country. It should not also be forgotten that when the Plan was being drawn up, the country was in a difficult period of economic transition, full of uncertainty and instability. As has been well explained by the framers of the Plan in a recent review of the progress of the Plan, "in the conditions of 1950 and 1951, the attempt to frame a comprehensive plan of national development seemed like an act of faith. The present dominated the outlook for the future and induced a note of caution in determining both the economic targets and the social goals".

Those who deplore the comparatively slow progress achieved in India as compared with the spectacular advance made in the USSR over the same length of time, should not overlook two fundamental facts in the situation. In India, planning has been democratic, *i.e.*, it has never been

intended to be an imposition from the top, howsoever benevolent, well-meaning and efficient the leaders at the top may be. Secondly, and this is more important, the first Five Year Plan has sought to solve the immediate problems facing the country, imposing in the process the minimum strain on her already overstrained economy and the least possible hardship on her poverty-stricken people. The review of the Indian economy during the year 1953-54 by the Reserve Bank of India shows that, notwithstanding apprehensions expressed by many about the course of economic development, production has registered an overall increase, prices have been stabilised and the balance of payments position has become much easier than what it was a year or two ago. Unless unforeseen international forces completely imbalance the economic and financial situation, we may reasonably conclude that the foundations have been truly and securely laid and the stage has now been set for proper planning for the second and subsequent quinquennia.

The question now arises as to what the objectives and targets should be in the second Five Year Plan—as only a few months remain unexpired of the present Plan period. Here, it will be a wise precaution to re-analyse our thinking and consider whether the approach does not require some modification. In this matter, the experience of the past three or four years may also offer some guidance.

As has been pointed out recently by Prof. Charles Bettelheim of Paris, the elaboration of an economic plan can be conceived in three ways. It can be a selection by a central planning body of schemes according to priorities; it can be a purely financial programming, aiming to utilise a part of the probable national savings for public investment, leaving to private enterprise the possibility of utilising, as it likes, the other part of the probable savings; finally, it may be a kind of “physical” planning, promoting the maximum utilisation of all resources.

The first two types of planning have certain inherent drawbacks. Selection of schemes according to priorities is,

of course, the easiest method of getting things done. But such a technique does not ensure either the adaptation of the structure of production to real economic needs, nor does it guarantee rapid economic growth. A purely financial programming also does not guarantee that all the resources will be fully and efficiently utilised or that the rate of increase of the national income would be appreciably higher than the rate which would result in an economy subjected exclusively to the forces of the market. Further, both these types of planning are inadequate in a country which is in need of rapid industrialisation in order to improve substantially the standard of life of a growing population.

It, therefore, seems desirable that the second Five Year Plan should view the problem from the standpoint of "physical" planning. This would require collection of as complete information as possible concerning the material and human resources in the country and the physical possibilities of utilising them. This would also require a kind of mental projection to a period much longer than the next five or ten years: the second Five Year Plan should be conceived essentially as an integral part of a plan of a longer range. If the target is, say, to double the per capita income after another thirty or forty years, the structure of investment and consumption and the inroads likely to be made by increase in population should be carefully mapped out and definite stages should be set for the achievement, at the end of specified periods, of at least parts of the target.

This brings us to the issues of capital formation, investment and national income. In the present Five Year plan the Planning Commission has made the assumption that the capital-output ratio would be 3:1 and that the time-lag between capital formation and the resultant increase in output would be two years. A further assumption is that the rate of capital formation would be stepped up further from the very first year of the Plan by 20% of the additional income generated in any year. On these assumptions, it has been estimated that the national income in 1955-56

would be Rs. 9,808 crores and the net capital formation would be Rs. 612 crores.

Some of these assumptions are a little unrealistic. For example, there are many projects which are likely to produce their effect on output and income with a longer time-lag than two years. Then again, it is extremely difficult in an underdeveloped country like India to step up the rate of capital formation by 20% of the additional income each year. As a matter of fact, the little data that we have regarding the accumulation of savings since 1950-51 seem to indicate that the net capital formation at the end of the present planning period will be far short of the estimated Rs. 612 crores. Many people are not perhaps aware that although the National Plan loan has exceeded Rs. 150 crores, all of it does not represent net capital formation, in as much as a large proportion of this loan has been obtained by disinvestment of existing loans and other assets.

The future plan will, therefore, have to make a more realistic appraisal of the factors underlying savings, investment and consumption. It should not be overlooked that a considerable portion of the expenditure in the existing Plan (and perhaps also in subsequent Plans) happens to be expenditure on "communal consumption" and not "investment" expenditure. Although highly useful and beneficial, the former type of expenditure hardly leads to capital formation—except in a very indirect manner and at a distant date. If, therefore, the objective is to increase national income in the shortest possible time, adequate measures will have to be taken (a) to promote savings and capital formation and (b) to canalise the additional savings in such investments as would pay the highest possible dividends in the shortest possible time.

How are such investments to be determined? Here, a little hedonistic analysis would perhaps be a better guide than a mere selection of schemes according to priorities or the adjustment of programmes according to finances avail-

able. It should be possible for the future planner to determine the total demand at the end of a specified period—the demand emanating from individuals, the demand emanating from the State and the demand emanating from the production sector.

Mere determination of the total demand will not, however, solve the problem. The programming and timing of the investment required and the technique of investment will also have to be carefully mapped out. A balance will have to be struck between the production and consumption of different commodities; secondly, the investments will have to be such as to ensure maximum utilisation of manpower resources; thirdly, a balance will have to be maintained between the incomes and expenditures of the population; and, finally, due note will have to be taken of technological co-efficients such as income and price elasticity co-efficients of demand, the capital co-efficient and the co-efficient of the techniques adopted to promote the main objective of planning, *viz.*, maximisation of the real national income during the total Plan period.

It would be useful to consider, in this connection, the methods adopted by the USSR to maximise their national income. Between 1926 and 1929, industrial investments in that country were multiplied five times and 86% of all such investments was made in heavy industry. This preference for heavy industry was based on economic considerations and not merely on ideological grounds. As has been pointed out by Norman M. Kaplan, the distinguished American economist, the more rapid growth of Soviet national income, as compared with American national income, is largely due to the emphasis placed in USSR on industrial investment in relation to total investment. Now that India has become almost self-sufficient in the production of food and the output of consumption goods has also crossed the stage of the bare requirements of her population, it should not be difficult for her so to plan her investments as to ensure greater employment and productivity on the

one hand and better utilisation of unused and under-used resources on the other.

The planning of investments is not, however, an easy matter. In India, the situation is further complicated by the fact that, for ideological as well as economic reasons, it is considered desirable to leave a large sector of investment in the hands of private enterprise. Now, if the history of investments in countries with capitalistic traditions is any guide, the economy can become subject to sharp and large fluctuations when no attempt is made to control the flow of investment in particular channels. Consideration of the profit to be realised or of the state of the demand as envisaged by the private entrepreneur often constitutes a disturbing factor which may vitiate the entire programme and objective of a Plan. It is, therefore, necessary that prior decision should be taken by the State about the nature and quantum of investments to be permitted in the public and private sectors.

The Planning Commission has already addressed all State Governments requesting the latter to submit, for the consideration of the Commission, their programmes and preferences for the second Five Year Plan. Emphasis has been laid, in their circular letter, on the need for substantially raising the level of capital formation, increasing the scope for employment and making provision for a large measure of social welfare. In the instructions sent out, however, one misses the desired emphasis on the central purpose, *viz.*, augmentation of the national income, and the need to plan investments with a view to securing that purpose. It is to be hoped that when the various States and Ministries of the Government of India have indicated their requirements, the Planning Commission will get down to the fundamental issues at stake and give a lead to the country on these issues. "Plan or no plan?" was the question posed by Barbara Wootton in 1930. Today, this question has become an ideological weapon used and abused by politicians all over the world. While nobody today would think

in terms of absolute individual freedom, there is a danger that, under the cloak of a Plan, we may lose sight of the central objective and dissipate our energies and efforts by making avoidable compromises on the real problems confronting the country.

II

EMPLOYMENT POLICY AND THE FIVE YEAR PLAN

In the opening paragraphs of the first Five Year Plan, it has been stated that the central objective is "to raise the standard of living of the people and to open out to them opportunities for a richer and more varied life". Planning must, therefore, aim at utilising more effectively the resources available to the community, human as well as material, so as to obtain from them a larger output of goods and services.

No one would dispute the above thesis, but the ordinary man in the community is naturally concerned more about the immediate benefits the Plan is likely to secure for himself in terms of fuller and more stable employment than about economic development of the country as a whole. It would, therefore, be worthwhile to examine to what extent the Plan is likely to bring about greater employment of the human resources and whether due importance has been assigned to the latter in assigning priorities and recommending particular fields and types of outlay.

As is well known, there is a considerable volume of unemployment and under-employment in India. While we have no precise data about its nature and extent, it is common ground that unemployment has been on the increase,

particularly among the unskilled and clerical categories. Secondly, there does exist a good deal of disguised unemployment among the rural sections of the population, especially among those who work on land and among those who earn their livelihood from rural arts and crafts. It is, therefore, pertinent to enquire (a) to what extent the Five Year Plan has reduced the quantum of unemployment during the short period, and (b) whether it effectively lays the foundation of a policy of greater employment.

In so far as employment in the first five-year period is concerned, the Plan itself seeks to provide the answer in fairly precise terms. The total outlay which is envisaged in the Plan is expected to provide additional employment to approximately 57·5 lakhs of people (outside the tertiary sector) and fuller employment to another 36 lakhs of people in the sector of cottage industries. In the absence of accurate statistical data on population available for gainful occupation, expected volume of employment, volume of unemployment and the manpower requirements in all branches of economic activity, these estimates are admitted to be "at best rough approximations and may prove wide off the mark". The Plan does not explain how even this approximate estimate has been arrived at, but an analysis of the increased economic activities envisaged in the first quinquennium inclines the writer to think that the estimate has been far too optimistic and the additional jobs available are not more than 20 to 25 lakhs.

As is well known, the population of India increased roughly at 1·34 per cent per annum during the last decade (1941-51). This gives an increase of 42 lakhs per annum. With the greatly improved medical and public health services and the larger quantities of food to be made available, the rate of population increase is likely to be greater, and not less, during the present decade. It has been estimated that the adult (*i.e.* above 20 years of age) population of India in 1951 was in the neighbourhood of 1,815 lakhs. Assuming an increase of this population at the rate of $1\frac{1}{2}$

per cent per annum, the working population in 1956 is likely to be much more than 27 lakhs per annum, particularly if we bear in mind the fact that, in India, quite a large number of people between the next lower age group (15 to 20 years) are also habitually in the employment market. It is thus patent why, during the short period at any rate, the execution of the various projects included in the Plan has not reduced the volume of unemployment in the country to any appreciable extent.

It may be argued that nothing more can be done in the short period. India, it is asserted, is an under-developed country, lacking capital equipment and other complementary resources. The need of the hour, therefore, is greater production and more intensive economic development, and not greater employment. Some protagonists of their thesis go even further. They say that if the choice is between greater employment at a lower level of real wages and lesser employment at a higher level of real wages, the country should adopt latter as their objective of economic policy.

The above is rather an over-simplification of the problem. It is true that, in an underdeveloped economy, a target of full employment is not only more difficult to attain than in a developed economy, but it is also a very lengthy process. The social cost involved in effectively mobilising all the available human resources should not also be lost sight of. Nor need we entirely overlook the need for increasing the productivity of labour all round so that larger employment can be provided at rising levels of real income. But it is not correct to assert, as some have asserted in the recent past, that there is an inherent contradiction between a policy of greater production and greater economic development on the one hand and that of larger employment on the other.

It will be useful to go back to fundamentals. Full employment means the absence of involuntary unemployment: both "frictional" and "voluntary" unemployment

are consistent with a state of "full employment" in an economy. In India today, we have a very large measure of involuntary unemployment. No one who is in touch with the masses of the people can deny that people are crying for opportunities to work—even at a minimum living wage, but the economy of the country is such that facilities are not available in an adequate measure. The unemployment which we find in India is due more to the fact that there are not enough jobs available in the country than to the circumstance that the unemployed men and the skills and locations do not match. The social and moral consequences of continued unemployment are so grave that it may be worthwhile to employ people even on uneconomic jobs than not to employ them at all, because those who would be taken in employment could, by what they earn and spend, give useful employment to others. According to advocates of this school of thought, a community, however overpopulated, can greatly increase its resources by the application of technique. Scarce resources in a static context, they assert, can be made abundant resources in a dynamic context. They, therefore, emphasise that the primary objective of a policy of economic development should be to prepare a manpower budget and make the best and most effective use of manpower resources in conjunction with other resources.

From a broad social point of view, this line of thinking is unassailable. It is even possible to go a step further and to say that the only effective test of a Plan of economic development should be the amount of additional employment it can generate both in the short period and in the long run. Viewed from this angle, all economic and social policies of Government should have only one aim, *viz.*, to create the conditions necessary for an increase in employment.

But how is this social objective to be achieved? While it is comparatively easy to plan economic development based on full utilisation of manpower in a well developed and organised community where the pressure of population does

not upset the execution of plans at every stage, it is extremely difficult to do so—at least in the short period—in a community like ours with agriculture and rural crafts still providing the largest measure of employment (or underemployment?), with productivity so low both absolutely and relatively and with a good deal of leeway still to be made up in the sector of capital accumulation and improvements in technique. In India, higher standard of living and full employment can be achieved only by a *sound, efficient and fuller utilisation* of manpower, natural resources, energy and capital. As has been amplified in the First Report of the U. N. Sub-Committee on Economic Development, the emphasis on “soundness” takes into account the importance of conservation of resources, that on “efficiency” brings into prominence the importance of increase in output per unit of economic effort in the connotation of economic development, while the emphasis on “fuller utilisation” draws pointed attention to the fact that, in India, the current low standard of living is a direct result of the under-utilisation of the resources of the country, both extensively and intensively. It would, therefore, be desirable to have an increase not merely in the volume of employment but also in its productivity. Economic development should thus involve both an increase in the number of jobs offered and a continued increase in what Keynes calls the “co-efficient of efficiency of labour”.

Judged by the above test, we cannot reasonably say that the Plan has failed to take note of the primary social objectives. One may have honest differences of opinion as to the measure and extent of emphasis laid in the Plan on this or that objective of social policy, but, taking the Plan as a whole, one must come to the conclusion that it has made the right approach and laid down the priorities in a sensible and rational manner. The Plan has not denied the importance which the development of employment opportunities should occupy among the considerations guiding economic policy. It has merely suggested some safeguards against the possibility of this aim militating

against, and interfering with, others equally, if not more, vital for national welfare.

The above conclusion does not mean that the pattern of our development plans need not undergo any change. It is quite conceivable—nay, it may even be desirable to lay greater emphasis, in the second and subsequent quinquennia, on the employment-creative aspects of the Plan. By the end of 1956, the foundations of a stable economic community will have been securely laid: it should be possible then to harness our energies to new tasks and new types of endeavour which can maximise the field of employment. Until then, the conflict between what social ethics demands and what the realities of the economic situation require will continue. But this need not fill those who lay greater stress on the former with despair: five years are but a speck in the cycle of time along which a nation moves. Let us be patient: let us await the fulfilment of the first Five Year Plan.

III

THE CHALLENGE OF THE UNEMPLOYMENT PROBLEM

Unemployment and under-employment constitute the most outstanding economic and social problem of our time. Not that unemployment is exclusively a product of modern times or that the problem never existed in the past. The problem has existed, though in a different form, ever since the dawn of history when man set out to barter his services or the product of his labour with those of his fellowmen. It is only in modern times, however, that unemployment has reached new levels and is being regarded as a scourge which must be rooted out at all costs. In like manner, it is only in modern times that it has been realised that it is the responsibility of the State and the joint responsibility of all States to end a situation in which, for various reasons, men have to remain without jobs and, therefore, without any means of livelihood for months and even years.

Until half a century ago, the responsibility for this involuntary idleness was fixed on the individual unemployed. That is no longer the position now. Imperceptibly, but surely, the emphasis has shifted from the individual to the State. Also, with a better appreciation of the causes of unemployment and of the conditions necessary for the main-

tenance of full employment, unemployment is no longer regarded as inevitable. On the other hand, it is felt that on its satisfactory solution depends the attainment of the fundamental economic goal, *viz.*, achievement of improved standards of living and of greater equality of incomes. As a result, many countries of the world are giving full employment one of the highest priorities and putting it forward as one of the major objectives of their economic and social policy. The full employment pledge embodied in the United Nations Charter and "the right to work, to free choice of employment, just and favourable conditions of work and to protection against unemployment", embodied in the Universal Declaration of Human Rights adopted by the United Nations General Assembly on the 10th December, 1948, have come to be accepted as a practical objective of national policy in many countries.

A study of the employment situation in different countries since the end of the war shows that the problem of unemployment has been much more serious in the world during the past few years than it was before the war. In the majority of the industrially developed countries, however, unemployment has remained at low levels in comparison with the pre-war years. In fact, in such countries as Czechoslovakia, France, Poland and United Kingdom, the main problem has been shortages in certain skills rather than unemployment. But unemployment has remained as serious as ever in the under-developed countries.

The unemployment experienced in different countries of the world is due to a variety of causes, each requiring a different remedial action. The most common type of unemployment to be met with in industrially advanced countries can be attributed to a reduction in the demand for goods and services. The trade depression in the 1930's with the consequent increase in unemployment was due to this reason. This type of unemployment is cyclical in character and is caused by fluctuations in industry marked by alternate periods of boom and depression. The line of action

which should be taken to combat such unemployment will naturally depend on the underlying causes. Encouragement of private domestic investments by means of such measures as extension of credit facilities, stimulation of consumers' demand, both at home and abroad, by increasing the income available for private spending, by reduction of taxes, by reduction of the costs of production and by schemes of subsidies, and adoption of well-timed public investments are some of the steps which are generally taken to combat unemployment of this type.

There is another type of unemployment which is caused by workers moving from old jobs to new jobs. This is frictional unemployment, caused by changes in the industrial structure which are constantly occurring as a result of the adoption of new machinery and inventions, and also as a result of demand shifting from one product to another. Frictional unemployment has been in greater evidence since the war, mainly because of delays in re-conversion of industries from war-time to peace-time footing. Owing to the speed at which such adjustments can be made to-day in industrially developed countries, however, its volume has been considerably reduced. To a certain extent, frictional unemployment is bound to exist even in the best organised economies. Its incidence can be reduced by better organisation of the employment market so that supply of and demand for skills and services are better adjusted. Mobility of labour, both occupational and geographical, and a programme of training and re-training also help to bring about reduction in frictional unemployment. Proper co-ordination may also be achieved by setting up a machinery which would bring about the necessary adjustments in the employment market.

There is a third type of unemployment which is caused by the shortage of capital equipment and other complementary resources. This exists in most Asian countries and other under-developed areas of the world. In these countries, there is chronic under-employment, resulting from the pressure of population on land, rather than the mass un-

employment to be met with in industrialised countries. In Ceylon, for example, for every thousand acres of cultivated land, there are nearly 1,200 people, as against 60 in Great Britain, who depend upon agriculture for their livelihood. Similarly, there are 73 million agricultural workers of all kinds engaged on 360 million acres of land in India as against only 8 million workers on 360 million acres in the U.S.A. The yield of wheat per acre in India is almost half of that in the U.S.A., and that of cotton, about one-fifth of the yield in the latter country. While this disparity is due to some extent to natural differences of soil fertility and to the use of backward methods, in the main, it is due to the fact that the pressure on land is heavy and more people are quartered on it than it can comfortably support. The result is that a large proportion of the agricultural population remains under-employed most of the time.

The congestion of labour on land and the endless subdivision and fragmentation of land have created a variety of problems. Not only has it led to under-employment in the rural areas, but it has created problems for the urban areas as well. The floating population of landless labourers, surplus to the needs of agriculture, drifts into the towns and cities and creates there the problem of excessive supply of manual labour and consequently that of lowering of wages. Finally, this chronic under-employment, both rural and urban, is aggravated by a spectacular increase in population.

Various suggestions have been made as to how alternative employment could be created for the surplus agricultural labour. The adoption of up-to-date methods in agriculture, the use of fertilisers, the adoption of a scientific system of rotation of crops, etc., will certainly help to improve out-turn per acre. It is doubtful, however, whether much relief can be expected by the adoption of these measures only. For example, while intensive cultivation can help to raise the output per unit of land, it cannot provide an effective solution to the problem of under-employ-

ment, as there is a limit beyond which it may not be profitable to sink additional capital therein.

A programme of extension of cultivable land is another remedy which is frequently suggested. But are additional lands available in sufficient quantities which could be brought under cultivation? Recent surveys show that the scope for further land settlement is limited. Moreover, before a programme of extension of cultivable land is undertaken, various factors have to be taken into consideration, *e.g.*, whether it would be economically productive to reclaim an uncultivated land. It may also be necessary to enlist the aid of Government by way of subsidies, allowances, provision of equipment and provision of housing facilities. As a matter of fact, to induce the unemployed agricultural workers to move and settle on new lands, these aids are almost essential.

As has been pointed out, limits are set to a programme of land settlement by the availability of extra land. New employment opportunities will, therefore, have to be opened up in other ways. A significant development in under-developed countries has, therefore, been the deliberate move towards industrialisation. A programme of industrial development, however, depends on the supply of three basic factors, *viz.*, entrepreneurship, capital and industrial skill. Generally speaking, there has been shortage of all the three factors in this country. Steps are, therefore, necessary to bring about an increase in the supply of *all* these factors.

Supply of the first factor, *viz.*, entrepreneurship, depends on the part played by private and public enterprise in the economy of the country. Even where private enterprise is the main pillar of a country's economic structure, there is need for support by Government so that private enterprise may be encouraged to grow and develop in the right direction. This may necessitate the bringing about of a reduction in the real costs of industrial production and, if need be, the granting of other financial inducements, such as imposition of increased import duties on competitive

goods, tax remissions, and subsidies. Secondly, Government may have to launch a programme of its own, if private enterprise is not forthcoming in measures adequate for the needs of the country.

While enterprise, whether public or private, is the prime mover of industrial development, enterprise by itself can do very little if adequate capital is not forthcoming. It is wellknown that, in India, lack of capital is largely responsible for under-employment. It would be necessary, therefore, to take steps to improve its supply. To ensure that adequate capital is forthcoming, suitable measures will have to be adopted to tap, in the first place, all the dormant indigenous capital. Indigenous capital may not, however, prove adequate, and it may have to be supplemented by foreign capital. To encourage the investment of foreign capital, steps will have to be taken to remove all obstacles which impede its flow.

Side by side with the expansion of capital, there is need for an increase in the supply of capital goods and basic materials or resources needed for capital formation. This would necessitate the adoption of suitable measures to increase the output within the country and to increase the supply from external sources.

Trained and skilled labour necessary for industrial development is also in short supply. As this shortage is likely to impede the progress of industrialisation, training schemes to ensure adequate supply of trained workers must be undertaken and, where such schemes already exist, they will have to be expanded so that the supply of trained personnel may meet the expanding needs of industry.

We thus see that the extent to which industrialisation can provide scope for the absorption of surplus agricultural labour depends on the speed of development and its volume, which in their turn, are dependent on the supply of the three basic factors of production—entrepreneurship, capital and industrial skill. Shortage of any one of these three factors can adversely affect the tempo of industrial development.

The importance of accelerated industrial development in a country like India can hardly be over-emphasised. Apart from relieving the pressure on land, such development will go a long way towards supplying a solution of the serious problem of middleclass unemployment which exists on a large scale in this country. At present, Government service or a few overstocked professions, such as law, medicine, etc., are the principal avenues open to the young employment-seekers of this class. Industrialisation not only provides alternative openings for the educated middle-classes in the industries concerned, but the expansion of tertiary occupations which invariably follows in the wake of industrial development must also absorb a substantial proportion of the educated unemployed.

Side by side with chronic under-employment, there is another type of unemployment called seasonal unemployment, which prevails in India as also in most Asian countries. Agriculture in these countries is generally a part-time occupation ; the cultivator is busy for only a part of the year and has per force to remain idle for the remainder. In order to combat seasonal unemployment, appropriate measures should be taken to provide opportunities for supplementary income during the slack season. The most common measure which could be adopted is to revive and modernise rural crafts and cottage industries. In order that these might flourish and hold their own against the cheaper products of the modern factory, various steps, such as organisation of industrial co-operatives, provision of credit, supply of cheap power, etc., are necessary.

There are other methods also which, if adopted, can help to eliminate to a large extent unemployment of the seasonal character. Execution of well-timed public works, mixed farming—so that by the introduction of supplementary crops in between main crops surplus agricultural labourers might be gainfully employed, the setting up of small agricultural industries—such as canning, processing, preservation, refrigeration, poultry farming, scientific husbandry etc.,

are useful avenues of employment for seasonally unemployed labour.

What then is the outlook for the future? Although the inflationary pressure, arising from low production and large budgetary deficits which was one of the major problems confronting the Asian countries in 1949, has abated, the share of India as also of most other Asian countries in the distribution of world income has not increased. Her *per capita* consumption of food, essential consumer goods and durable goods is not rising as fast as the increase in her population.

In the face of the above facts and also in view of the low level of savings and capital formation, it would perhaps be unrealistic to talk in terms of a rapid increase in the standard of living or of being able to remove unemployment and under-employment in the foreseeable future. And yet, for human as well as economic reasons, the objective of economic and social policy in this country must continue to be the attainment of this goal.

The only way in which progress can be made towards the attainment of this goal is by the continuous and systematic efforts of the people and Government, supported and encouraged by the active assistance of countries more fortunately placed who are in a position to grant loans and other forms of aid. In recent years, various international programmes have been chalked out for rendering assistance to underdeveloped countries like India, and some of them are in actual operation. It is as much to the interest of countries like U.S.A. and U.K. as of India, that the economy develops rapidly, so that the challenge of unemployment can be met boldly and the stage can be set for a steady increase in the *per capita* income.

IV

UNEMPLOYMENT: AN HISTORICAL RESUMÉ

No subject has been discussed and bandied about more than that of unemployment—that condition of involuntary idleness in which men (and women) have to remain without jobs for weeks, months or even years together. Yet, it is interesting to note that the word “unemployment” first came into common use in English-speaking countries only towards the fag end of the nineteenth century. As a matter of fact, even Alfred Marshall did not refer to any “unemployment problem” in the first volume of his *Principles*, which was published in 1890: he merely spoke of “inconstancy of employment”. And he went so far as to say that the problem was created not by an actual increase in the numbers or percentages of the unemployed, but by greater publicity, a more sensitive social conscience and the misinterpretation of such incomplete statistics as were available. To quote his own words:

“I have very little to go by except general impressions, and general impressions on a matter of this sort are not worth much ; but, on the other hand, I do not know that anybody else has anything else but general impressions, and I have been studying for many years the question whether the tendency of our modern forms of

industry is not to increase, the irregularity of employment. I believe that it is not, and I believe that the statistical evidence brought forward to prove that it is, is invalid".

The utmost that the economists of the late nineteenth and early twentieth century would concede was that employment was perhaps becoming a little more inconstant. They, therefore, concentrated their studies on the trade cycle, and that also more as a special problem of abnormality or pathology than as a deep-seated disease within the body economic. In the 1911 edition of the *Encyclopaedia Britannica*, for example, we find the following remarks in the opening paragraph under "Unemployment":

"Unemployment: a modern term for the state of being unemployed among the working classes.

It is more particularly within the nineteenth century that the problem of unemployment has become specially insistent, not by reason of its greater intensity, but because the greater facilities of publicity, the growth of industrial democracy, the more scientific methods applied to the solution of economic questions, the larger humanitarian spirit of the times, all demand that remedies differing considerably from those of the past should be tried".

We thus see that the social concept of unemployment had not been born even in the first decade of the present century. Although the mid-nineteenth century view that unemployment was due largely to defects in individual character, had given way to a feeling that it was something for which the individual was not much to blame and that he was but a victim of circumstances, economists were loath to admit that the structure of the economic society had anything to do with it. Some of them, therefore, endeavoured to find a cause for periodic unemployment in climatic conditions. According to them, these determined the abundance and scarcity of harvests, upon which largely depended industrial conditions throughout the world. It was argued that

raw materials played a vital part in industry and trade and the failure or abundance of commercial crops made a vast difference not only to the agricultural communities themselves, but also to communities where the crops were utilised as the raw materials of industry and trade. The most famous of these explanations was the 'Sunspot Theory' of W. S. Jevons, who sought to prove that the periodic appearance of spots on the surface of the sun coincided with the failure of the rains and with general agricultural depression throughout the world. Even Lord Beveridge, the famous exponent of "Full Employment" Policy, wrote in the *Economic Journal* in 1921 that not infrequently changes of temperature affected harvests and consequently business conditions in all the countries of the world.

The result was that the problem of unemployment was treated primarily as one of charity and relief: that it constituted a challenge both to economic theory and to economic policy was not realised until after 1909-10. Even then, it became merely a *concern* of Government and it was a long time before the latter would accept the remedy of it as their *responsibility*. As is well known, the Old Age Pensions Act, the Labour Exchanges Act and the National Insurance Act (Health and Unemployment Insurance) were placed on the Statute Book in the United Kingdom only during the period 1909-11, although identical measures had been adopted in Germany under Bismarck about a quarter of a century earlier—during 1883-89.

Even in the United Kingdom, however, social conscience had started waking up, at least among some economists, well before 1909-10. In 1886, in a lecture entitled *Irregularity of Employment and Fluctuations of Prices*, H. S. Foxwell had declared his conviction that uncertainty of employment was the root evil of the industrial regime and that abolition of the existing undue "irregularity of employment" should be a major objective of economic policy. Petty, a predecessor of Foxwell, had spoken in still more emphatic terms a few years earlier: "Better to burn a thousand men's labours for

a time, than to let those thousand men, by non-employment, lose their faculty of labouring."

The year 1909 is a landmark in the economic history of the United Kingdom in as much as it was in this year that the Royal Commission on the Poor Laws reported on the working of these Laws. Although the Majority Report favoured the continuation and development of the existing policy of relief works, a very influential minority of members, consisting of Sydney and Beatrice Webb, suggested a much more drastic and systematic counter-cyclical policy of public works and investment. In the same year also was published Beveridge's first treatise on the subject of unemployment, *Unemployment: A Problem of Industry*, in which he distinguished between different types and causes of unemployment and generally supported public works policies as an antidote to violent cyclical fluctuations.

Nevertheless, the problem of unemployment was not considered serious enough to merit intricate economic analysis. Even in 1913, R. G. Hawtrey had ridiculed the idea that public works were a remedy for unemployment, and had asserted that Government, by the very fact of borrowing for this expenditure, withdraws from the investment market savings which could otherwise be applied to the creation of capital. It was left to three economists with Liberal Party affiliations (J. M. Keynes, H. D. Henderson and D. H. Robertson) to lay their fingers on the new and more serious form of chronic unemployment which was beginning to emerge in the United Kingdom from about 1923 onwards, and to suggest that public investment was the only effective weapon with which this enemy could be attacked. "The State must raise the chronically depressed level of home investment and employment and make itself responsible for maintaining an adequate level of employment by filling any gaps left by a deficiency of private investments." It will not be irrelevant to point out that a good deal of this new interest in unemployment in capitalist countries was due to the chal-

lenge which totalitarian régimes were openly throwing out to the free world.

Today, economists as well as politicians have moved a stage further. The cry now is for "Full Employment"—for the creation of a state of affairs in which periods of enforced idleness would be reduced to the minimum. The experience of the last war has shown that, even in an individualistic economy, unemployment can be made to disappear. What is possible in war, it is rightly pointed out, should not be unattainable in peace. If the secret is adequate total outlay at all times, let there be such outlays as would be high enough to set up a demand for the products of industry and agriculture, which can be satisfied by using the whole, or nearly the whole, manpower of the country.

The contagion has spread to India as well. It started with the appearance of unemployment among the educated middle classes, but it was not until 1935-36 that official notice was taken of it. In that year, the Government of U.P. set up a Committee, with the late Tej Bahadur Sapru as Chairman, to enquire into the causes of growing unemployment among educated youths. More or less simultaneously, two other State Governments (Bengal and Bombay) drew up special schemes for the relief of unemployed youngmen who belonged to the white-collared professions. But there was no awareness of the overall unemployment and under-employment that were slowly raising their ugly heads. Then came World War II and the many new opportunities of employment it offered to all and sundry. For the time being, people forgot that there was any unemployment and, in certain sectors, there was even a shortage of manpower. With the end of hostilities, however, the cumulative effects of a population increase at more than $1\frac{1}{4}$ per cent per annum and of the closing down of industries and businesses ancillary to the war began to be felt. When, therefore, the Bombay Plan was published in 1944 towards the closing stages of the War, it specifically said that the Plan aimed at raising the national income to such a level that, after meeting the minimum

requirements, *every* individual would be left with enough resources for the enjoyment of life and for cultural activities. Since then, we have had the Five Year Plan of the Planning Commission in which the objective of increasing employment opportunities has been stressed as one of the main purposes of the Plan. Finally, in very recent months, efforts are being made to revise this very Plan in order to make the securing of fuller employment the *principal* purpose of the Plan and *not just one of the many objectives*.

It is strange that even today, while discussing the problem of unemployment, some people still talk in a language strangely reminiscent of what Marshall had written in 1890 or the *Encyclopaedia Britannica* had recorded in 1911. Only the other day, a very distinguished member of the Central Government pooh-poohed all this fuss about unemployment in this country and hinted, almost after Marshall in the late nineteenth century, that there had been no appreciable increase in unemployment and that the furore was due, firstly, to misinterpretation of incomplete statistics and, secondly, to a more sensitive social conscience. Another distinguished industrialist-cum-economist echoed the pre-first World War doubts of R. G. Hawtrey and asserted that expansion of the field of public investment would not result in any additional employment, as it would merely withdraw from the investment market savings which would otherwise have been utilised in financing private enterprise. As memories are short, it would be wise to be on one's guard against such naïve simplifications of a problem which threatens to shake the very foundations of individualistic economy and a free life. Let not India repeat the mistakes which were made all over the world in the inter-war years: let us be a little extra careful, so that we do not make the same old mistakes in a new way.

V

THE STATE AND INDUSTRIAL DEVELOPMENT IN WEST BENGAL

As is well known, the main emphasis of the First Five Year Plan has been on a substantial and rapid improvement of agriculture with a view to increasing the supply of food grains on the one hand and of raw materials required for industry on the other. Of the total outlay envisaged under the Plan in the public sector, the share of industries has been 8·4 per cent only. In the State of West Bengal, the proportion allotted to industry has been even less—only 1·7 per cent of the total State outlay of Rs. 69·10 crores having been earmarked for the promotion of industries.

This does not mean that the Government of West Bengal are unaware of the need for adequate outlay to encourage and develop industries. It should not be forgotten that West Bengal is already one of the most highly developed industrial areas in India: as such, the framers of the Plan have thought it fit, in the larger interests of the country, to incur a greater proportion of the outlay on industry in areas which are comparatively under-developed. Secondly, and this is more important, under the Industries (Development and Regulation) Act, the responsibility for the development of most of the major industries has devolved on the Union Government.

The part that the State Government can play for the promotion of major industries like jute, cotton textiles, tea, iron and steel, etc., is, therefore, extremely limited in character. As a logical consequence, the Government of West Bengal have been compelled to confine themselves to the sector of cottage and small industries. The programmes for the development of such industries have naturally been less spectacular than those for large industries. It should be pointed out, however, that the problems of cottage and small scale industries are, in a sense, much more complex than those of large industries. Given the necessary capital and managerial ability, it is comparatively easy to prepare the blueprint of a big industrial undertaking, but the integrated development of a number of small establishments requires far more intensive planning and calls for much greater vigilance on the part of Government than a development plan related exclusively to large industries.

In order to understand the complexities of the situation, let us have a look at the economic landscape first. The latest census (1951) has revealed that, in West Bengal, during the last half a century, the proportion of earners in non-agricultural livelihoods per 10,000 of the total population has declined from 770 in 1901 to 671 in 1951. Secondly, the total number (earners and dependants) deriving their livelihood from the organised sector of industries has been in the neighbourhood of 14½ lakhs only: as many as 23½ lakhs (earners and dependants) still depend for their livelihood on cottage and small industries. While the total number of workers daily employed in organised industries has risen in most other States, there has been an actual fall in West Bengal.

*Number of workers employed in organised industries
in different States.*

		1945	1951
Assam ...	...	58,070	68,614
Bihar ...	...	168,408	175,558
Bombay	...	735,774	808,093

*Number of workers employed in organised industries
in different States.*

		1945	1951
Madhya Pradesh	...	110,263	115,978
Madras	...	279,176	422,291
West Bengal	...	702,821	648,303

In the context of the growing population in West Bengal (the situation has been accentuated by the influx of displaced persons from East Pakistan), this has thrown a considerable strain on the resources and ingenuity of the State. An analysis of the efforts made by the State Government for the promotion of cottage and small industries shows, however, that, since 1947, progress has been steady and, in some sectors, really gratifying.

The most important cottage industry in West Bengal is the handloom cotton weaving. The principal problems facing the industry in West Bengal have been (a) lack of finance, (b) lack of adequate marketing arrangements, and (c) adherence to old and antiquated techniques. The bulk of the weaving population is still dependent on the Mahajans for their finance, raw materials and sale of finished products. Although there are as many as 931 primary co-operative weaving societies and the number of members is 78,000, co-operative finance was, until recently, the exception rather than the rule. Secondly, in the procurement of raw materials, West Bengal's handloom weaving industry is at a special disadvantage vis-à-vis other States, because the bulk of the yarn has to be purchased from South Indian mills through a chain of middlemen. The result is that when the yarn reaches the weavers, its price is much higher than in many other States. This puts up the price of the finished goods and makes the position of the handloom industry all the more difficult.

Nevertheless, during the past six or seven years, special steps have been taken by the State Government to meet the

situation. Yarn is being distributed—in an increasing measure—through co-operative agencies. A Government Sales Emporium has been opened in Calcutta and arrangements have also been made for the sale of handloom products through sales depots attached to Co-operative Industrial Unions. A West Bengal State Handloom Board has also been functioning since 1948, with a technical body under it, to advise Government in all matters concerning the handloom industry. Then again, certain fields of production have been reserved for handlooms since the middle of 1950, while, since December, 1952, the production of *dhoties* by the mills has been restricted to 60% of their average monthly production during 1951-52. Finally, Government are giving a subsidy for the marketing of handloom products. The result has been all-round progress, as would be evident from the following figures:—

	1947	1953
No. of looms	86,300	1,47,000
No. of people employed in the industry (on the basis of 3 persons per loom)	2,58,900	4,41,000
Annual production	40.25	80
	million yds.	million yds.

The future programme of the Government of West Bengal for the development of the handloom industry comprises, among other things, (a) a scheme for organising Weavers' Co-operatives and the provision of working capital to weavers, (b) a scheme for the supply of improved appliances, (c) a scheme for the establishment of Regional dye houses, and (d) a scheme for running a model block printing and pattern-supplying factory—all for the convenience of the handloom weavers.

Next in importance to the handloom industry is the silk industry. The silk industry has been facing enormous diffi-

culties not merely in West Bengal but in other States of India as well—mainly owing to keen competition from artificial silk and rayon and the fluctuations in the prices of raw silk. The decline in the purchasing power of the people has also contributed to the difficulties of the silk industry. Vigorous steps had, therefore, to be taken by the West Bengal Government (a) to grow improved cocoons and arrange for the supply of good quality raw silk at an economic price, and (b) to introduce new designs and motifs so that West Bengal silk products could compete, on equal terms, with the products of Kashmir and Mysore. The different sectors of the industry—rearsers, reelers as well as weavers—have been organised on a co-operative basis and special arrangements have been made for the marketing of silk products through the Government Sales Emporium at Calcutta and other depots. The problem of the silk industry is a long term problem, involving as it does the imperative need for lessening the cost of production and improving the quality of silk. Research is, therefore, being conducted to produce F_1 crosses by mating indigenous silk worms with foreign races ; it is hoped that the hybrids so evolved would help the production of cocoons with superior silk content.

Today, there are approximately 4,500 silk looms in West Bengal, providing employment to about 3 lakhs of people. The annual production of raw silk is about 3.5 lakh lbs. while the production of silk fabrics is over 2,80,000 yds. per annum. The future programme of the Government, in so far as the silk industry is concerned, includes (a) the establishment of a Foreign Race Seed Station at Kalimpong, (b) a scheme for co-operative silk worm rearing on the lines followed in Japan, (c) a scheme for a cold storage room for preserving silk cocoons, moths, etc., and (d) a scheme for the supply of refrigerators to aided granures.

Another industry which deserves special mention is the brass and bell-metal industry. Here, the difficulties have been the serious competition from aluminium and enamel-

wares and a change in the habits of consumers. Inability to procure raw materials at reasonable prices and adherence to antiquated methods of production have further aggravated the situation. In order to bring down the cost of production and improve the quality of products, the Government of West Bengal have taken steps to instal, at convenient centres, rolling plants with arrangements for polishing the metal; the first such plant has been installed at Bankura.

Since 1947, the handmade paper industry has also received the special attention of the Government of West Bengal. This industry is concentrated in certain special areas—at Mainan in Howrah district, Dasghara in Hooghly district, Mahadevnagar in Murshidabad district and Sriniketan in Birbhum district. Makers of handmade paper are having a very difficult time on account of competition from machine-made paper. Antiquated methods of production have put up the price of handmade paper well above an economic level. A special research unit of the Directorate of Industries has been carrying on experiments on the utilisation of local raw materials and improved techniques of production for the last five years and the industry which was almost dying out from this State has now recovered sufficiently to bring production to the 1947 level. A co-operative society has been formed at Mainan with the help of a grant sanctioned by the All India Khadi and Village Industries Board and arrangements are also being made for the training of rural craftsmen in improved techniques of production.

The above are only some of the cottage industries in regard to which the State of West Bengal has taken special steps with a view to preventing an economic collapse. The future programme, however, includes the development of new industries as well—for the products of which there already exists a considerable demand within the State. Thus, the West Bengal Government hope to set up in the not too distant future a well-organised lock industry and

an industry for the manufacture of toys and sports goods. The development of the palm gur industry and resuscitation of small engineering industries in the Howrah district, which is rightly called the Sheffield of West Bengal, also feature in the future development programme of this State.

In the sphere of large-scale industry, there is one industry which has received the special attention of the West Bengal Government—it is the salt industry. West Bengal's requirement of salt is estimated at 54 lakh maunds per annum, but only about 2 lakh maunds are manufactured locally. West Bengal has a sea coast of about 195 miles where, according to experts, salt could be manufactured at an economic price to meet the entire local demand. A scheme for the setting up of a salt factory on the Contai sea coast was prepared by the French salt experts from Salicun, Paris, sometime in 1951. This scheme is now being scrutinised by a local committee and preliminary investigations as to salinity of sea water, fluctuation in temperature, wind velocity, humidity, rainfall, rate of evaporation, etc., are being carried out. If the project materialises, West Bengal would become self-sufficient in salt, and consumers in this State would be able to obtain their requirements at a much cheaper price than at present. Meanwhile, the West Bengal Government have given direct financial and other assistance to a private concern, *viz.*, the Bengal Salt Co. at Dadanpatra, also on the Contai sea coast. This factory has increased its production of salt from 26,000 mds. in 1947 to over 1,07,000 mds. in 1953. The production is expected to reach the figure of 1,50,000 mds. during 1954.

Another important State-sponsored industry which deserves special mention is the quinine industry. West Bengal and Madras are the only two States in which cinchona is cultivated and quinine manufactured on a commercial scale. In both the States, the cultivation of cinchona and the manufacture of quinine are Government undertakings. In West Bengal, in particular, the cultivation of cinchona

has made tremendous advance since 1947, as will be evident from the following figures:—

ACREAGE UNDER CINCHONA

1947-48	...	...	4,005
1948-49	...	...	4,382
1949-50	...	...	4,667
1950-51	...	...	4,952
1951-52	...	...	5,191
1952-53	...	...	5,409

The bark harvested and the quinine extracted have, however, been maintained at constant figures of 19,00,000 lbs. and 60,000 lbs. respectively, as a matter of deliberate policy. Owing to keen competition from synthetic antimalarial drugs, quinine has suffered a temporary eclipse and Government have thought it prudent to place on the market only that quantity which it can easily absorb. In the meantime, considerable improvement in quality has been effected: the standard was raised to B.P. 1932 in the year 1949 and to B.P. 1948 in the year 1951. By modernising the Laboratory attached to the Government Quinine Factory at Mungpoo and by conducting intensive research, the cost of production has also been effectively lowered: today, the West Bengal Government quinine compares favourably in price and quality with the best known imported brands of quinine. The future programme of development includes (a) researches so as to obtain richer and larger output of quinine from the cinchona bark, (b) manufacture of other quinine products besides cinchona alkaloids and (c) the growing of medicinal plants like Ipecac, Digitalis, Ergot, Sarsaparilla, etc., so that these may be utilised in the local manufacture of drugs.

A number of large industrial projects are also under the active consideration of Government. Of these, special mention may be made of a coke oven-cum-gas grid project and the project for a blast furnace plant for the production

of foundry iron. Under the former project, 850 tons of coke would be produced every day and 3,600 million cubic ft. of gas would be available per annum for industry as also for domestic purposes. In addition, the byproducts of coal which are at present burnt out in the coal fields would be exploited commercially, and at least 15,750 tons of crude tar, 4,200 tons of ammonium sulphate and 5,600 tons of benzol would be available per annum. The latter project is intended to produce annually 3,50,000 tons of foundry iron for the fabricating and engineering industries round about Howrah and Calcutta, and also for the industries which will come into existence in the DVC area. Although no final decision has yet been reached about the exact location of these two plants, the experts have advised that they should be located in or near Durgapur in the Asansol area, as this area possesses certain special advantages which would enable coke, gas as well as foundry iron to be produced and distributed economically.

Another scheme of considerable industrial importance which is being actively considered is the Calcutta Sewage Gas Production project. This scheme aims at utilisation of the sewage of the City of Calcutta. At present the sewage flows through underground sewers and open channels to a place called Bantola, where primary mechanical sedimentation takes place: the sludge is then sun-dried and used as fertiliser. It is now proposed to generate gas from this sludge by the process of fermentation: the sludge itself would continue to be used as manure. According to the estimates of experts, about 1.5 million cubic ft. of gas per day would be generated by this process, while manure of about 250 tons a day would also be available for sale.

We thus see that, within the sphere of its limited responsibilities, the State of West Bengal has played a positive rôle for the development of industries. The recent setting up of the State Financial Corporation with an authorised capital of Rs. 2 crores and a paid up capital of Rs. 1 crore will also help industrial development—particularly in the

private sector. Finally, the proposed State Development Corporation, when formally established, will supplement the activities of the State Financial Corporation by assuming direct responsibility for development in certain specified spheres.

The future outlook is, therefore, full of promise and hope. While it is too early to say what resources are likely to be allocated for industrial development in the second Five Year Plan, it is almost certain that emphasis will shift from agriculture to industry. In that context, the projects and plans which are now under scrutiny will acquire a new significance, and one need not be surprised if a plan of integrated development of small and big industries forms the main plank of the industrial programme for the next quinquennium.

VI

RATIONALISATION OF INDUSTRIES

No subject has given rise to greater controversy in this country than that of rationalisation of industries. Businessmen in general have been emphatic that, without rationalisation, some of the major industries in India would find it extremely difficult, if not impossible, to function efficiently. Labour leaders, on the other hand, have been vehemently opposed to rationalisation on the ground that this would cause displacement of labour and bring in its train widespread unemployment.

As between these two opposing viewpoints, the position of Government has been anything but enviable. An attempt has been made to find a way out by propounding a methodology of "rationalisation without tears", but, as every serious student of economics and economic history will testify, it is not an easy matter to improve the technical organisation of industry without causing at least some displacement of labour.

What exactly does this much discussed term "rationalisation" mean? Broadly conceived, rationalisation is the application of purposeful ratiocination to industry with a view to securing economic efficiency: it is an attempt at social engineering to avert a threatened economic collapse.

Historically, the term was first popularised in Germany when, at the end of the first World War and in the wake of the disastrous inflation that followed, it became necessary for German industry to form into "combines" and introduce various economies in production. The Vereinigte Stahlwerke which was created in 1926 by the fusion of six of the largest iron and steel firms was a typical rationalised undertaking, while the transformation of the famous I. G. Farben from a cartel or loose association into a close combine provided yet another example of rationalisation. In the U.S.A., on the other hand, rationalisation took the form of mechanisation of production methods, largely because of scarcity of labour. The immigrant labour which was available was also comparatively backward in character. As a result, various kinds of labour-saving machinery had to be devised and the principle of division of labour had to be pushed to its logical conclusion.

The successful application of these measures in Germany and U.S.A., particularly in the latter country, led to a general clamour for rationalisation in the United Kingdom also. Between 1926 and 1930, economists like J. A. Hobson, D. H. Macgregor and T. E. Gregory were hotly debating the virtues and dangers of rationalisation. In 1929, the Committee on Industry and Trade, in its final report, recommended the adoption of rationalisation as a means for removing the excess capacity which was impeding the introduction of more efficient methods of production. In some countries, there was a cry for concentration of control in the spheres of production as well as distribution. In others, there was a demand for economies arising from the specialisation of plants, the simplification and standardisation of products and large-scale research and marketing. During the depression of the thirties, rationalisation was cited as a panacea in most countries which were faced with the problems of economic change and readjustment.

We thus see that rationalisation involves two major techniques—the technique of centralised control and that

of mechanisation, modernisation and standardisation. In India, in all recent discussions, emphasis has been laid mainly on the latter aspect—on the introduction of such economies as would result from specialisation of plants, the simplification and standardisation of products and the introduction of up-to-date machinery and labour-saving devices, and not on the need for overall centralised control.

What are the probable effects of such measures on the employment situation? The first effect of a rationalisation policy is that less labour is put into each unit of the product. The greater use of automatic machinery and higher standardisation must inevitably lead to an immediate reduction in employment in the particular industry or firm where rationalisation is introduced. But, as time passes, the large increase in production, which attends a successful rationalisation, may lead to an actual enlargement of the market and even to a fall in the prices of the product in question. In such circumstances, there would not only be no reduction in employment, but the reduction in prices would, in an expanding market, increase the real income of the entire consuming community. The purchasing power so released may so stimulate effective demand in other markets that both employment and the general level of wages may even register a rise. This is precisely what has happened in the U.S.A. since the twenties of the present century. The experience of the U.S.A. has been repeated, though not to the same extent, in Germany, France and the United Kingdom as well. Even the U.S.S.R. has taken over the idea of rationalisation from these capitalistic countries, mainly because of its ultimately beneficial effects on employment and standard of living.

Unfortunately, however, rationalisation is bound to lead to unemployment in the short period—partly because of the imperfect mobility of labour and partly because of the time factor. Rationalisation certainly reduces costs and helps to increase production, but until the lower costs have enabled the industries in question to regain their market and expand

it, labour displaced by rationalisation will continue to suffer. It should not also be overlooked that a grave transfer problem is involved, and, in the intervening process, monetary and other factors, having no direct connexion with the rationalisation problem, may accentuate the difficulties of transition.

Today, the question of rationalisation has assumed a certain urgency in two major industries in India—the jute industry and the cotton textile industry. The Indian jute industry has become singularly vulnerable to competition from mills which have sprung up in Belgium, France, Brazil, South Africa and, lately, in Pakistan. Possessing as these latter do the latest machinery and equipment, their efficiency of production is generally higher than that of Indian mills. As the quantum of production of these non-Indian mills increases, Indian mills will find themselves at a great disadvantage. The Jute Enquiry Commission recently set up by the Government of India has, therefore, emphasised the need for rationalisation, although it has qualified its recommendation by saying that rationalisation should be so phased as not to cause any large-scale displacement of labour. In the cotton textile industry again, the transition to a buyers' market and the emergence of Japan and Great Britain as two efficient competitors in areas hitherto monopolised by India have underlined the need for a planned programme of rationalisation. It is interesting to recall in this connexion that the Working Party on Cotton Textiles, set up by the Government of India, reported about a year ago that most of the plant and machinery in Indian cotton mills was not only old but also completely outmoded and that, with the present machinery, production would continue to be poor, the workload heavier and the costs higher.

An economic dilemma thus faces the country today. Modern competitive economy and a buyers' market call for low production costs and efficient methods of production which alone can provide continuous and gainful employment. On the other hand, the displacement of labour which

is inevitable in the short period is a problem which cannot be brushed aside lightly—particularly in the context of the already heavy incidence of unemployment and under-employment in the country.

Any programme of rationalisation which is sought to be implemented will, therefore, have to be rational and in accord with the larger economic interests of the country. In other words, rationalisation will have to be so planned that the economies resulting from the innovation are considerable and there is scope for an overall expansion of capital, labour and output. Although the amount of labour per unit of capital (and per unit of output) may go down, it ought to be possible to arrange increased utilisation of equipment so that more labour can be employed on the same equipment. The guiding principle here should be that, while the temporary displacement of workers may not be a serious social problem, their being kept in permanent idleness would constitute a social waste which must be avoided at any cost.

It is often argued that unemployment resulting from rationalisation is a lesser evil than unemployment resulting from relative inefficiency. Now, if the situation is such that the very competitive position of an industry is in jeopardy, there is no other option but to rationalise—in the hope that growing productivity would give society a margin to play with, out of which unemployment could be relieved. It would be foolish, however, to think that rationalisation would work without friction. It would be equally dogmatic to assert that the fears of labour are based on blind prejudice or a deep-rooted resistance to change in any shape or form. Rationalisation presents the country with an economic dilemma. If it is to be socially sound, it must ultimately benefit the public through lower costs of production and an adequate fall in price, and it must benefit labour by creating new demands for the products of the rationalised as well as of ancillary industries.

VII

FINANCING OF INDUSTRIAL ENTERPRISE

The Industrial Finance Corporation of India was formally set up in New Delhi about five years ago and has been very much in the limelight during the past twelve months. Similar Finance Corporations have been set up in the Punjab, Saurashtra, West Bengal, Assam, U.P. and Bombay, and more are likely to come into being in the remaining States of the Indian Union.

Why has there been this sudden craze for setting up Financial Corporations? What functions are these Corporations expected to discharge which existing institutions have not been able to do? What will be their rôle in the general pattern of industrial development in the country? These are pertinent questions and should be answered first.

To understand the rôle of these Financial Corporations, one must analyse how industrial enterprise in this country was financed in the past and how it is being financed at present. Now, the finance required by industries is of three types. First comes the finance for the capital structure of a particular industrial concern. This is generally obtained from the public in the form of share capital. Secondly, finance is required by industries when it is found that the subscribed and paid-up capital is not adequate for

providing fully the plant, machinery, land and buildings required by a new unit ; occasions may also arise when new machinery or equipment is required by existing concerns for expansion or replacement. Thirdly, all concerns require what is called working capital for the purchase of raw materials, for their conversion into finished goods, and for the payment of wages and salaries of their staff.

The first two categories of finance usually constitute what is called fixed or block capital. As has already been noted, the initial share capital is raised by means of subscriptions from the investing public. Banks have hardly anything to do with the raising of such capital, though, on rare occasions, they have been known to assist in getting the capital subscribed by underwriting it. The capital for replacement or extension, on the other hand, is usually raised by means of debenture issues, bearing a fixed rate of interest.

It is in obtaining the last category of finance (working or floating capital for day-to-day needs) that industrial concerns have to depend very largely on banks. Banks provide the necessary funds by accepting as security raw materials, finished goods or goods in the process of manufacture. The amount of accommodation required under this head varies from establishment to establishment and depends largely on the nature of an industry.

There is a general cry in this country that banks do not adequately assist in the financing of industries. Now, until recently, the only banks which were in a position to offer accommodation to industries were the joint-stock or commercial banks. These banks were modelled closely on the lines of the English deposit banks as they stood before World War I. The investible resources of the latter were mostly demand or short-term deposits, and as such they could not tie them up in providing long-term finance to industry. Partly for this reason and partly also because of the historical tradition of British banking which joint-stock banks functioning in India had inherited, they neither participated in

the flotation of companies nor did they collaborate with industrial concerns in the manner and to the extent banks have collaborated with industry in Germany, Belgium, Netherlands, Italy, Austria and Hungary.

In the early years of industrial development in this country, no great difficulty was experienced by the well-established industries in securing the necessary finance for expansion or replacement, heavy though these requirements were. This was because the Managing Agents provided, or helped to provide, most of such finance. Some of these firms not only did the preliminary work of research and experiment prior to the launching of new concerns, but also actually promoted joint-stock companies. In addition, most of them either employed their own funds for financing the requirements of the concerns in their respective groups, or arranged for such finance by acting as guarantors. There being no institutions in India corresponding to the issue houses, investment banks and underwriting firms of the western countries, and the tradition of industrial banking as practised on the Continent being also unknown in this country, the Managing Agents filled a very important gap in the economic and financial system. It is true that in Bombay and Ahmedabad, current finance used to be obtained by the cotton mills from public deposits, but even here it was the standing of the Managing Agency firm which attracted such deposits. Notwithstanding the criticisms levelled against the Managing Agency system and the occasional instances of speculative activity and inter-company investment of funds by them, no impartial observer can deny that, but for the financing of industrial enterprise by these Agents, the industrial progress of India would have been much slower than what it was on the eve of the second World War.

During the last three decades or so, however, it has been increasingly felt that the Managing Agency system was unequal to the task of providing or arranging finance for industry—particularly for those concerns which, though

inherently sound, were comparatively new to the industrial field. As joint-stock banks would not depart from their tradition of commercial banking, efforts were made in two directions to set up specialised institutions or agencies. On the one hand, the various Provincial Governments enacted legislation to grant financial aid to small industries and set up special Boards to scrutinise loan applications. On the other hand, some enterprising businessmen started "Industrial Banks" primarily with a view to financing industrial ventures. The most important of the Industrial Banks (some eight of them were started during the period 1917-1923) was the Tata Industrial Bank launched in 1917 with a paid up capital of Rs. 2.25 crores. All these institutions had, however, to close down in the course of a few years because (a) although the promoters were stimulated by the model of industrial banking as practised in Germany, they did not have any experience of such operations, and (b) in an anxiety to achieve rapid success, they indulged in risky and costly investments. The State Aid to Industries Acts, as operated by the various Provincial Governments, on the other hand, have hardly touched the fringe of the problem. Firstly, the amount of loans which can be sanctioned under these Acts is so small that even medium-sized industries do not receive adequate accommodation. Secondly, in almost all Provinces (now States), bureaucratic delay in the disbursement of loans and official incompetence to make a proper assessment of the prospects of a business have often led to difficulties which could easily have been avoided. Finally, the absence of a suitable and efficient machinery to tender advice about actual utilisation of funds has led to many of the loans going bad—thereby creating the erroneous impression in the mind of Government that the rules for disbursement should be made more rigid and inflexible.

The years that followed the second World War witnessed a change in the technique of industrial finance in most countries. The problems of reconversion of industry from war-time to peace-time basis were many and complex.

There were many industries which had been converted to war uses during the period of the war and had now to win back their peace-time market. There were other industries (*e.g.* those supplying consumer goods) which had to be built almost anew. In all these matters, the question of finance loomed large. It was found that, with the best intention in the world, the existing banking and other institutions were not in a position to meet the gigantic challenge of reconversion. Two special institutions, called the Industrial and Commercial Finance Corporation and the Finance Corporation for Industry, were accordingly set up in the United Kingdom. The former provides finance for such small and medium-sized industrial and commercial business as cannot readily or easily obtain such facilities from the ordinary banks and the stock exchange. The latter finances mainly large-scale industries—particularly new enterprises and, in certain cases, expansion and modernisation of existing ones. Then again, an Industrial Development Bank was set up in Canada in 1944 while, in Australia, an Industrial Finance Department was created within the Commonwealth Bank of Australia in the year 1946. Similar developments took place in the comparatively underdeveloped Latin American countries as well. “Fomento” credit organisations or specialised institutions to assist in the mobilisation of capital for productive purposes and to provide long-term credit to industry were set up in Mexico, Brazil, Chile, Argentina and Colombia, mostly during the years following the end of the second World War.

It is, therefore, but natural that similar demands should be put forward in India also. As is well known, an Industrial Finance Corporation was set up in New Delhi in 1948, with an authorised capital of Rs. 10 crores and a paid-up capital of Rs. 5 crores, primarily “for the purpose of making medium and long term credits more readily available to industrial concerns in India, particularly in circumstances where normal banking accommodation is inappropriate or recourse to capital issue methods is imprac-

licable". The Corporation is empowered to issue bonds up to five times the paid up capital and can also accept deposits from the public payable after not less than five years. The total bond issues till the 30th June, 1953, were Rs. 7·8 crores. Notwithstanding the criticisms which have been levelled in recent months against the working of this Corporation, the record of its activities shows that over Rs. 13 crores was paid out as loans to industry during the first quinquennium. While this is not a very magnificent figure against the background of the actual requirements of industry, it is certainly a good beginning.

The work of the Industrial Finance Corporation of India is being supplemented by State Financial Corporations proposed to be set up in every major State. These latter derive their authority from an entirely separate Act, the State Financial Corporations Act of 1951. These Corporations in the various States are, and would be, miniature editions of the Corporation at the Centre. Under the Act, the maximum authorised capital of a State Corporation can be Rs. 5 crores. It can also issue bonds and debentures like the Central Corporation, but the total amount thereof must not exceed five times the amount of the paid-up share capital and the reserve fund of the Corporation. It may also accept long term deposits from the public under certain terms and conditions.

The point which should be emphasised is that neither the Industrial Finance Corporation at the Centre nor the various State Financial Corporations can normally be expected to provide venture capital or risk capital. The criticism that these Corporations do not take a broad view of the need for industrial development of the country and do not actually underwrite new share capital is a bit unfair, because Industrial Finance Corporations are not expected to do so—except in a very indirect manner. The formation of new industries and new companies or the development of industrially backward areas is the function of an entirely different type of institution—like the projected National

Industrial Development Corporation at the Centre or the State Industrial Development Corporation in West Bengal.

It would be useful also to remember that lack of adequate finance is but one of the many difficulties which confront Indian industries today. Much more perplexing is the absence of a proper climate for investment which is preventing money from flowing into productive channels. Another problem which confronts industry—particularly new concerns and concerns which seek to modernise their plant and equipment or expand their activities—is the rising industrial costs. Unless the causes which underlie these difficulties are tackled effectively, no amount of financial engineering will be able to sustain and build the edifice of development.

VIII

CAPITAL REQUIREMENTS OF INDUSTRIES

The problem of providing adequate finance for the private sector of industry has been, and is being, debated with increasing emphasis. Even the setting up of Industrial Finance Corporations, both at the Centre and in the States, has not eased the difficulties of private enterprise, and a Committee had to be set up by the Government of India, with Mr. A. D. Shroff as Chairman, to suggest ways and means for augmenting bank finance for the development of the private sector. This Committee has made a number of valuable recommendations which merit careful study.

It is often said that the rate of investment is going down in this country. This, however, does not appear to be correct in so far as the public sector is concerned. As a matter of fact, during the past two years, investment in this sector has been stepped up considerably. Expenditure on various development schemes has been fairly high in so far as the Government of India and the State Governments are concerned, and the targets which were envisaged in the Five Year Plan have, on the whole, been well maintained. As is well known, Government have not experienced any difficulty in tapping savings hitherto uninvested: loans floated by them as also by quasi-public institutions have often been

oversubscribed within a few hours of flotation. This may have been due to the general confidence of the investing public in the economic and financial policies pursued by the Government of India, but the very fact that finance has been forthcoming for projects sponsored by the State seems to disprove the thesis that the sources of capital are drying up. As regards the rather large programme of deficit financing contemplated during the year 1954-55, it has been asserted by many investors and investing institutions that if Government were to borrow even to the maximum extent of the deficit, the funds would be forthcoming without much difficulty.

At the same time, it cannot be denied that the flow of risk capital available for new enterprises as well as for undertakings already firmly established in the private sector has been rather slow. An analysis of the statistics of the past three years shows that, while there has been an increase of investment in securities bearing a fixed interest and also in gilt-edged stock, there has been a perceptible decline in the amount of new money invested in risk-taking productive enterprise.

The above decline in investments has been due to a number of factors. First, the class of persons from which investors in private enterprise used to be drawn in the past is fast disappearing. With the disappearance of the princely States and the big zamindaris from the political map of India, the source of funds, available for investment, has dried up considerably. Secondly, the gradual rise in the cost of living and the fall in real income among both the lower and upper middle classes have also had their repercussions on the size of investible surplus. Thirdly, for various reasons, the climate is considered unfavourable by most potential observers for investment in private undertakings.

This state of affairs is not, however, peculiar to India. Except perhaps in the USA and Canada, personal savings have, in recent years, become a negligible factor practically all over Europe and America in so far as investment

in industrial undertakings is concerned. In most countries, individuals as a group have failed to make any appreciable direct contribution to the finance of industry. A recent survey by the Oxford Institute of Statistics has revealed that no personal saving is being done in post-war Britain except by contract, *i.e.*, through the payment of life insurance premia and of instalments for superannuation pensions. A similar study made by the Economic Research Council of London also draws attention to the fact that "over the past two decades, institutional investors have assumed a much greater importance in Britain than individual investors."

The facts of the situation must, therefore, be squarely faced in India as well. On the one hand, there is competition for finance from both Central and State Governments for the execution of their heavy development programmes—a competition which is likely to increase rather than diminish in the near future. On the other hand, the average individual investor either has not got enough surplus to invest, or, even when he has some surplus, he prefers to invest it in assets which would assure him or his family a steady income in old age or after death, as the case may be. It should not also be overlooked that redistribution of current income has affected investment in another way: it has taken away investible resources from those who are traditional savers to those who are not, and cannot perhaps become, savers.

How would private undertakings then obtain their long term capital requirements? In so far as established industries are concerned, they will have to depend for expansion more and more on their own internal resources, such as depreciation funds, renewal and replacement reserves and undistributed profits. When these are not adequate, they may have to issue preference shares and debentures in which the individual investor, with his preference for a safe return on his investment, is likely to be interested. But difficulties would arise in respect of new industries. They do not have internal resources of the kind

which old and well-established industries have, nor is there any likelihood of their preference shares or debentures being taken up by the investing public. Other methods of raising capital and providing long term finance must, therefore, be found, if industrial development is to take place quickly and at a smooth pace.

It is in the above context that we should view the two new proposals which have been put forward by the Government of India. The first is the proposal to set up a private Industrial Development Bank—a proposal which has taken concrete shape as a result of the preliminary work of the three-man Mission sponsored by Government and the World Bank. The second is the proposal to set up, under Government auspices, a National Industrial Development Corporation for the promotion of such industries as are considered necessary in the interest of security and national economic progress but are not attracting private capital or enterprise.

The Industrial Development Bank is to have an ordinary share capital of Rs. 5 crores, of which the major part will be held by banks and insurance companies in India and only a minor part may be held by non-Indians. There will be no direct participation by Government, but the World Bank's long term loan of Rs. 5 crores will have to be guaranteed by the Government of India. The US Government will permit Rs. $7\frac{1}{2}$ crores of counterpart rupee funds, realised from the sale of steel under the recent TCA Operational Agreement, to be used as special stock—without any voting right or right to dividend. This special stock will have to be repaid in equal instalments after 15 years, and before the end of 30 years. The total finance of this Development Bank will thus be Rs. $17\frac{1}{2}$ crores. On the assumption that $2\frac{1}{2}$ to 3 times loan capital can be raised on this capital base, the total resources of the Bank would amount to Rs. 50 crores. This is quite a formidable sum, and it is hoped that, with these funds, the Bank would be able to stimulate the expansion and modernisation of exist-

ing undertakings and also promote the participation of private capital, both internal and external, in new industry.

In so far as it will advance medium and long term capital to private enterprise, the activities of this Industrial Bank will be similar to those of the Industrial Finance Corporation of India and State Financial Corporations. It will, however, go a step further: it will enter the field of underwriting equity capital and also furnish technical and managerial aid to the private sector of industry. It is not improbable that, in course of time, this Industrial Bank would develop into an Investment Trust specialising in making available to private enterprise a part of the risk capital required and also the technical know-how of modern industrial processes.

The State-sponsored Industrial Development Corporation, on the other hand, represents an effort to tackle the problems of industrialisation and unemployment in the country from the angle of shyness of capital and enterprise. There are important sectors where, for various reasons, private capital and enterprise are not coming forward at all. The National Industrial Development Corporation will start new industries in these sectors and manage them through the initial process of development till they reach the stage of earning profits. At that stage they can be handed over to private enterprise, if considered necessary and desirable. According to Government spokesmen, the Corporation will not enter into competition with industries already well-established in the country. The proposed State Development Corporation in West Bengal, however, has a slightly different objective in view. It will undertake development schemes within the State, but its activities need not be confined to the promotion of industrial enterprises only. It can undertake development schemes in other spheres as well, *e.g.*, reclamation and improvement of land for establishing townships or executing housing schemes, water supply, drainage and irrigation, fisheries and dairy farming.

The fact is that India needs today a very large capital

and rather bold entrepreneurship for the effective implementation of her development programmes. Existing institutions, either singly or in a group, have proved to be unequal to the exigencies of the situation. There do not also exist adequate potential savings waiting to be garnered. As recent surveys conducted by the ECAFE have shown, "the savings required for even moderately rapid economic development are beyond existing resources". The great majority of the relatively limited number of savers and investors prefer to put their money either in loans to Government or in purchasing scrips of proven soundness issued by well-established firms. When they feel a little venture-some, they would at best invest their money in small scale trading ventures with a limited turnover, but offering the prospects of a quick profit. Economic progress, however, depends on individual investors and entrepreneurs deciding to risk their savings in new enterprises, and both the Industrial Development Bank and the National Industrial Development Corporation are expected to harness shy capital and hesitant enterprise to the task of economic development. Whether the operations of these two new institutions will actually assist in the attainment of these objectives, time alone can tell.

IX

THE ECONOMICS OF COTTAGE AND SMALL-SCALE INDUSTRIES

A good deal of controversy has raged, in recent months, about the respective merits of large-scale and small industries, particularly in the context of India's growing population and the need for making available to the common man as much a quantity of consumer goods as possible. Economists and pseudo-economists have quoted from Keynes and Borsodi, and talked in abstruse terms about macro-economics and micro-economics, leaving the lay reader rather bewildered and confused. In all these discussions, there has been a "remoteness from reality" which cannot but be regretted. Even without denying the principle of "*la science pour la science*", it has to be admitted that economics, properly so called, is more deeply rooted in, and, therefore, more directly connected with, practical life than most of the other social sciences. It is, therefore, necessary for the practical administrator to climb down from the heights of fruitless abstraction to the plain of hard everyday facts of economic and social behaviour.

Now, where does the importance of cottage and small-scale industries lie? The importance lies in the fact that, while the mechanised industrial sector employs only

2.5 million people in registered factories and mines, at least ten times that number derive their livelihood from village industries, rural handicrafts and small-scale unregistered industrial establishments. India, it is urged, has always been the home of such small units and, therefore, a solution of her economic problems should be sought in an integrated programme of development of such industries. The Five Year Plan, too, shows an unmistakable bias in favour of cottage and small-scale industries when it says that such enterprises "derive their significance from their potential value for the employment of trained and educated persons". "The field of public employment is limited. So also is the employment that may be available in large-scale industries or in allied fields". The implication, therefore, is that the most promising field of employment would lie in the development of the smaller industries.

As is well known, the population of India has been increasing roughly at the rate of 1.34% per annum. It has been estimated that the total increase in the labour force in India during the Plan period would be about 8 million persons. Now, the only effective way in which this additional labour force, which is being created as a result of the natural increase in population, can be absorbed, is by industrial development. The problem which confronts India today is, however, the inadequacy of her capital resources. The development of large-scale factory industries on an adequate scale is going to be an extremely difficult and slow process. If, therefore, this additional manpower is to be absorbed in the quickest possible time, India must choose an industrial structure which is more appropriate to her economic and social conditions. In more specific terms, she will need to develop industries which, for the same amount of capital investment, can produce more and at the same time provide greater employment.

Let us look at it from another angle. The main reason why we, in India, would like cottage and small-scale industries to come to our rescue is that our resources of capital,

skill and managerial ability are extremely limited. As is well known, cottage and small-scale industries are generally labour-intensive rather than capital-intensive. Secondly, they do not require that high grade of technical skill and organising ability as is demanded by large-scale industry. If, therefore, the transition from the existing under-developed economy to an industrialised economy is to take place smoothly and efficiently, the safest and perhaps the most economical course would be (a) to revitalise our cottage industries and handicrafts, and (b) to have a chain of small industrial establishments acting as feeders to large-scale industry.

How can this be done? The Planning Commission has laid a good deal of emphasis on the need for the development of small units of industrial production, but no well co-ordinated programme of work has been chalked out nor have any clear-cut measures been suggested for the organisation of industries which would require less capital and at the same time absorb a much larger number of people than big factory establishments. This perhaps was inevitable, in as much as a Plan can only make suggestions and lay down the broad lines along which action should be taken. The translation of the principles into concrete action must be the responsibility of administrative departments.

It is here that the need for proper studies arises. At the very outset, it would be important to recognise that the problems of cottage industries and handicrafts are quite distinct from those of small-scale industries. Taking cottage industries and handicrafts first, we must get rid of a good deal of confused thinking on the subject. A section of selfless social workers still plead for retention of old techniques—both implements and skill. With this end in view, they would not hesitate to give the maximum amount of protection and subsidy to existing village industries and crafts. They look with disfavour at any proposal for the introduction of labour-saving machinery and implements, on the ground that this might lead to the death of the village eco-

nomy and may also cause displacement of labour, if not permanent unemployment. Such a policy will not, however, stand either the test of time or the inexorable logic of the situation. If our cottage industries and handicrafts are to survive and develop, they must conform to altered consumer demand and also be able to produce more at cheaper cost. This means that they must be remodelled on a new pattern. While the essence of old techniques may be retained, new methods of production will have to be evolved and much greater reliance placed on technological innovations. Even so, however, it is doubtful if cottage industries and handicrafts would be able to provide any substantial additional employment. At the most, they may be able to put a stop to the steady rise in under-employment which is taking place among cottage workers and small craftsmen. It would, therefore, be necessary to make elaborate field studies of the structure of our various cottage industries and handicrafts, their problems of marketing and distribution, of availability of raw materials and finance, and, last, but not the least, the preference or otherwise of the consumer for such products.

It is in the sphere of small-scale industries acting as feeders to large-scale industry, however, that additional employment opportunities can arise on any appreciable scale. In this respect, India might emulate the example of Japan where, in spite of the existence of large-scale industries, more than half of the industrial workers belong to small and medium units. In our country, too, Government could organise and develop those small-scale industries which are concerned either with the manufacture of certain parts required by large-scale industry, or with certain stages of production in the manufacturing process of the latter. In the engineering industries, for example, there is considerable scope for such allocation to small establishments. Small-scale industries could also be developed and organised to meet the ancillary requirements of large-scale industry, *e.g.*, tea-chests and tea garden implements for the tea

industry, tapes and ribbons for the clothing industry, and screws, nuts and bolts for various kinds of machinery and equipment.

The above would, however, require a considerable degree of planning and organisation by the State. The success of the Japanese small units has been due to the fact that they were generally under the financial control of either Government departments or of the great industrial and financial combines. Although the scale of production was small, the scale of business was quite large. If India is to have a network of dispersed, labour-intensive and small-sized industries, they must be properly integrated into the general framework of industrial development. Secondly, it would be better if, in the initial stages at any rate, State or State-sponsored Corporations were to plan and work them.

The setting up of small-scale industries acting as feeders to large industry is not an easy task. The location of such industries will have to be carefully assessed with special reference to electricity and communications available. Then again, arrangements will have to be made to finance these industries and to ensure that their products conform to the specifications laid down by large-scale industries. Finally, steps will have to be taken to maintain an economic price level. All these are beyond the competence of small private entrepreneurs and must, therefore, be investigated by the State.

It is often said that the best scope for small industries lies in the production of articles which are obtained from abroad. Restriction on imports and a positive stores purchase policy by Government are generally suggested as the best methods of ensuring that these small-scale industries develop on proper lines. While it is not denied that the above two measures would greatly help the growth of such industries, it would be a mistake to think that they alone would do the trick. It should not be overlooked that the economies of large-scale production are likely to be greater in respect of consumer goods and light producer goods now

imported from abroad. It may, therefore, be necessary to allocate specific spheres of production to small industries and to rigorously exclude large industries from these fields. This may not always be sound orthodox economics, but when employment has to be found for the largest possible number in the shortest possible time, some sacrifice on the part of the community is inescapable.

The point which needs to be emphasised is that the problems of cottage and small-scale industries are, in a sense, much more complex than those of large industry. Given the necessary capital and managerial ability, it is comparatively easy to put up the blue-print of a big industrial undertaking, but the integrated development of a number of small establishments calls for very intensive research and survey. It would not be an exaggeration to conclude that the development of technologically efficient but light small industries and their dispersal into suitable locations would require far more intensive planning and call for much greater vigilance on the part of Government than a development plan related exclusively to large industries.

THE DEVELOPMENT OF SMALL INDUSTRIES

According to the National Income Committee, the value of net output of small enterprises in the year 1950-51 was of the order of Rs. 910 crores, while that of factory establishments was only Rs. 550 crores. The term "small enterprises" includes cottage industries, but excludes small units under the Factories Act which are taken as factory establishments. If the value of these small units is also added, the contribution of small industries to national output would be very considerable indeed. It is, therefore, obvious that small industries occupy an important position in the economy of the country.

At the very outset, a line of demarcation should be drawn between (a) traditional village craftsmen working primarily for the needs of the village itself and only occasionally for the nearby village and small town markets, and (b) small industries (including artistic crafts) aiming at larger markets and selling or trying to sell their products throughout the country and abroad. As regards the first group of industries, it is almost certain that the inexorable logic of events and the impact of cheaper substitutes will lead to the gradual extinction of the village

artisan: he can hardly be expected to survive the present generation.

The attention of Government as also of every well-wisher of the country should, therefore, be turned towards the second group of industries. In this group are included not merely light consumer goods of all kinds, including artcrafts, but also a variety of tools as well as accessories of mechanical equipment. Many of these industries are concentrated in some particular small area, urban or rural, and the history of their development may be traced to some favourable circumstance or combination of circumstances some half a century ago or even earlier. A few, however, sprang up during the period of the two wars, the immediate stimulus having been the general shortage of consumer goods, whether produced within the country or imported from abroad.

The importance of these small industries in the economy of the country may be considered from two aspects—from the standpoint of their employment potential and also from the standpoint of their capacity to meet the demands of a wide market. According to recent estimates, these small industries already provide employment to at least 20 million people and could, if properly developed, employ at least an equivalent number within the next quinquennium. As regards the market potential, as has been pointed out by the Ford Foundation Team, a very important market is being neglected at present—the market consisting of three hundred million people in the villages. According to the Team, villagers have got a good bit of idle purchasing power (this purchasing power will increase as the full effects of the various irrigation schemes, reclamation projects and better methods of cultivation begin to permeate rural life) which could be easily tapped by the small industries and handicrafts. Then again, about 60 million residents in the urban areas also present a market of staggering possibilities. “Four times as large as the total population of Canada,

more than the total population of England, this potential area for consumptive and hard goods jolts the imagination".

The economic background—in so far as the sphere of consumption is concerned—is, therefore, most reassuring. The question is how production can be intensified, developed and improved upon, so that not only can a larger quantity and variety of goods reach this huge hungry market, but a much larger number of people can derive their livelihood from the manufacturing and trading operations associated with these industries. In attempting an answer to this question, the Team points out that present corrective measures have been piecemeal in character and, therefore, inadequate. What is wanted is a systematic approach to the overall problem: there is need for better raw materials, better finish, better equipment, better design and better power facilities, on the one hand, and better financing and better marketing, on the other.

The most important point to remember is that, notwithstanding the initial stimuli which led to the starting of many of the small industries, they are deteriorating in output and consequently in employment. The basic cause for this state of affairs is inefficient methods of management and production plus reluctance or failure to adopt improved techniques.

It is, therefore, imperative that these small-scale industries also should be rationalised, *i.e.*, labour-saving equipment and methods should be used. This may strike odd, particularly in the context of the need for promoting greater employment in the sector of small industries. But it is not really so odd. Such improvements would mean more and better products at lower prices and thus result in greatly expanded demands and markets. Ultimately, employment will expand far beyond what it is at present, wages will rise and there will be an appreciable improvement in the standard of living. While there will always remain a vast field for handwork (and this not merely in typical handicrafts), it would be unsound to use hand power just for the sake of

using it, when machines could help in the production of better types and larger quantities of goods.

Rationalisation and modernisation should, therefore, form the basis for future action. All the measures to be adopted by Government should be guided by this objective. For instance, when finance is made available to the smaller units, it should be given chiefly in order to gain certain results, such as securing modern equipment and better utilisation of manpower. Similarly, the basic function of the proposed National School of Design should be to design and prepare improved models suitable for commercial production and to arrange to get these models into production.

It may be asked whether this emphasis on technology will not strike at the root of the very concept of small industries and handicrafts, as we understand them in this country. The answer is definitely in the negative. In the realm of small industries in particular, continued use of inefficient techniques has already cost them dear—especially where they have to compete with modern technical methods of production and distribution used by large industry. Even where this competition is not so significant, small industries are languishing, because at present their products are crude and, therefore, do not appeal to the discriminating buyer. In the sphere of handicrafts also, consumption could be stimulated and employment accelerated if the traditional craftsman would use better tools, work on better designs and have at his disposal raw materials in a semi-processed form. The rapid advance made by small industries and handicrafts in Sweden, Japan and China is due primarily to the readiness of the small man to adjust his production methods to the challenge of modern technology.

This does not mean that each small unit should set up an elaborate plant of its own. Such a course would be beyond the resources of most of them. Instead, Government should set up a few Institutes of Technology for small industries. These Institutes would initiate and carry on investigations and surveys of existing methods and also conduct ex-

perimental and applied research for promoting the development of new techniques. The methods and results thus obtained would then be disseminated to the small industrialists, and their skilled workers. These Institutes should be multi-purpose in character, as small industries cover a great number of different trades and many of them have problems of a complex nature. They should act as spear-heads of technological improvement and their value will increase as more and more of small producers and craftsmen look to them for guidance and help.

To supplement the work of these Institutes, it would be necessary to set up a plant or plants where workers and small producers could be trained for the proper use of modern, improved equipment. In these plants there would be departments such as foundries, both ferrous and non-ferrous, automatic and semi-automatic machine shops, forge shops, heat treating and electrical shops. They should also have maintenance shops employing every kind of tradesman and craftsman, so that opportunities may be provided for the training of men in all the various trades and crafts.

But then the question may be asked: "Would planning for small industries be economically sound?" Some economists argue that planning, by its very nature, is a macro-economic operation and as such it yields better results with a small number of large industries rather than with a large number of small ones. They point to the extensive Government planning behind the Dutch scheme of scattered small industries in Indonesia in the thirties of the present century and its subsequent failure, and argue that small industries cannot survive unless there are comprehensive control of location and investments, arrangements for financing and, finally, responsibility for the maintenance of prices. Now, the failure of the Dutch experiment in Indonesia was due to causes other than economic: although the "plan" looked very plausible on paper, in the difficult political context of the period, it was doomed to failure because (a) the people did not co-operate to the extent desirable, and (b) when put

into operation, the "plan" was whittled down considerably. The Dutch experiment does not, therefore, provide a moral from which we may draw any positive conclusions.

In so far as India is concerned, the economies of small industries lie in the fact that the capital requirement of each small unit is comparatively small, labour is relatively immobile, and the managerial and supervisory skill required for the efficient functioning of these units is not of such a high order as in the case of large industry. In the present state of relative immobility of labour and widespread underemployment in the country, therefore, it would be an economically sound proposition to give the necessary support and assistance to small units. Even from the investment-incentive angle, the development of small industries would help capital formation and thereby lay the foundation for further industrial progress.

The above suggestions which have been made by the Ford Foundation Team of experts, are in the nature of general recommendations only. A lot of further research and study will be required before a beginning can be made with specific industries. The selection of such industries as would lend themselves to co-ordinated development in the quickest possible time and at the least possible cost is the job of practical administrators. It is now up to the latter to say which of the small industries and handicrafts should be developed first and which should have a lower priority. It would be wise to remember that all industries do not have the same employment and market potential. A beginning should be made in those fields where the social cost of development can be matched by an expanding consumers' market and increased utilisation of the human and material resources within the country.

XI

DEFICIT FINANCING AND UNBALANCED BUDGETS

During recent months, the phrase “unbalanced budgets” has figured rather prominently in discussions relating to the financing of the Five Year Plan. The expression is rather an unfortunate one. Under the orthodox canons of public finance, a budget is called “unbalanced” when expenditure on Governmental account, both current and developmental, outstrips its revenues, and the “deficit” is sought to be covered either by public borrowings, or by obtaining loans and advance from the Central Bank, or by printing additional currency notes.

Now, there is a general fear that an “unbalanced budget” and the “deficit financing” it leads to, result in inflation, and are, therefore, injurious to the economy of a country. This apprehension has been rather pointedly expressed since the end of the last war, because the very large scales of Governmental expenditure during the war gave rise to inflationary conditions in practically every country of the world. Even at the end of the war, the need for economic reconstruction and development and the emphasis laid on various social welfare projects created a situation in which most Governments have found it extremely difficult to cut

down the scale of expenditure. The inflationary pressure, therefore, continues, and every Government is hard put to, to maintain an equilibrium between prices, cost of living, wages and cost of production. The problem is all the more acute in underdeveloped countries like India where the desire to achieve economic development as quickly as possible and promote greater employment happens to be keen and insistent.

It would be useful at this stage to go back to fundamentals and consider what exactly is meant by "inflation". The popular definition of "inflation" is a rise in prices caused by monetary expansion—a situation in which "too much money chases too few goods". This, however, is only a one-sided and static description of "inflation". Inflation undoubtedly means a rise in price-level, but this rise may result as much from non-monetary as from monetary causes. For example, increase in prices may be due, not to the expansion of the note issue, but to an adverse trade balance. Then again, increase in prices may be due to an increase in the cost of imported raw materials. An inflationary situation may also be caused through over-investment or under-production or dis-saving or devaluation. A correct definition of an inflationary situation is, therefore, one in which prices, monetary requirements, cost of production, wages, cost of living, etc., chase one another incessantly and tend to influence each other in an upward direction. As has well been put by a recent writer, "inflation is an expansionary trend of purchasing power that tends to cause, or to be the effect of, an increase of the price level". It is more a state of disequilibrium than anything else: this disequilibrium ceases—notwithstanding prices being stabilised at a higher level—as soon as the various factors have adjusted themselves to a new equilibrium level.

It follows from the above that expansion of purchasing power or of prices does not necessarily constitute a state of inflation. An inflationary situation is likely to arise when this expansion is sufficiently pronounced and persistent to

set in motion a spiral of rising cost of living, wages, cost of production, monetary requirements and volume of money. On the other hand, if the increase of purchasing power also leads to an increase of production (a situation which is by no means inconceivable), there is no real inflation. Normally, however, there is a time lag between the increase in the volume of purchasing power or prices and an increase in the volume of goods, and it is during this intervening period that the more harmful consequences of inflation make themselves felt.

We should, therefore, guard against an oversimplification of the effects of inflation caused by "unbalanced budgets" or "deficit financing". In certain circumstances, the Government of a country may deliberately prefer a moderately unbalanced budget. It is also important to remember that, in a planned economy, one should judge a series of annual budgets as a whole rather than each of them separately. In this context, the fact that some budgets show deficits is comparatively unimportant, as long as others show surpluses balancing the series as a whole.

As has been stated already, the anti-inflationary bias of Governments as well as the public in the post-war era is due largely to the historical fact of large and cumulative inflationary pressure during the closing years of the last war. On the other hand, during the inter-war period, when there was much hardship through deflation, the attitude of economists as well as politicians was definitely anti-inflationary and the cry was for a policy of "reflation". Today, when the price level has reached a new equilibrium in most countries, there has been a cautious return to a demand for deficit financing: unbalanced budgets do not shock the public as much as they used to do even a couple of years ago.

We may go a step further and say that unbalanced budgets need not necessarily be an evil. In Mussolini's Italy, for example, deficit budgeting was carried out with conspicuous success until the war actually broke out. In that country, the method adopted was that of deferred pay-

ments. During the inter-war period, Italy undertook large projects of land reclamation, road construction, irrigation, afforestation and improvement of harbours and ports. Most of these involved heavy expenditure. The technique followed was that the entire expenditure for a particular project over a period of years was authorised in advance, together with the assignment of expenditure for each particular year. These projects were then let out "in concession" to various corporations, and a method of "deferred payments" was adopted. Payments were made by the State in the form of terminable annuities (this would include both capital and interest) spread over a period of 20 to 30 years. Corporations to whom the projects were "conceded" obtained funds occasionally from banks, but mostly from "parastatal" credit institutions. These latter differed from ordinary banks in that they were authorised and capitalised by the State and guaranteed by special conditions of privilege and monopoly: they could, therefore, specialise in the provision of extended credits and allow their funds to become "frozen" to an extent the ordinary banks would have been unable to do. The essence of the system was that the credit institute dealt with the entrepreneur instead of with the State, accepted the annuities issued to him by the State under the terms of the concession, and provided the actual sums estimated by the entrepreneur as necessary for the prosecution of the work. The State was thus relieved of the immediate, though not of the ultimate, fiscal burden of such undertakings. Under this system, the financial burden of a particular project was spread over a number of years and this made it possible for the State to initiate a much larger number of projects at a time.

Another country where "unbalanced budgets" have been accepted as a matter of deliberate policy is Sweden. Recognising that one of the obvious shortcomings of deficit spending is the adverse reaction of the general public to an unbalanced budget, the Swedish Government adopt a policy of long-range budget planning. They arrange deficit

spending in such a way that, in the so-called "lean" years, they virtually mortgage the otherwise ample resources of good years, both past and future. No attempt is made to conceal the deficit (on the other hand, it is made ostentatiously visible) and a technique is invented by which the deficits are carried forward until they are liquidated. The Swedish Government believe in a long-term balancing of incomes and expenditures, and, in an unfavourable year, the deficit is transferred as a negative item to a budget equalisation fund, specially created for maintaining continuity in public finances. This fund is made self-liquidating by the rule that one year's deficit shall be debited to the ordinary budgets during the next five or ten years by one-fifth or one-tenth, as the case may be, each year: it provides a maximum amortization term, but this does not prevent the State from paying off the debt in a shorter period, if it so desires. The guarantee of "sound finances" is sought, not in a mechanical balancing of budgets, but in the openness with which a deficit is registered and in the setting up of the equalisation fund by which the deficits are carried forward until they are paid. Secondly, many projects (*e.g.* the State's public buildings, schools, post offices and even hospitals), although not "productive" in the conventional sense, are made self-liquidating by instituting public corporations to administer them. This has the added advantage of making the relative costs of different branches of public activity measurable and comparable with much more rationality and accuracy than is possible under the orthodox system.

The problem in India today is in certain respects similar to the problem in the two countries mentioned above and, in certain other respects, quite different. The similarity lies in the fact that, as in Italy and Sweden, we, in India, have enormous potential resources to develop and we want to develop them in the shortest possible time so as to eradicate poverty, hunger and unemployment. The difference consists in the situation that the growth of savings and capital formation in this country have been very slow in recent years

and may not increase appreciably in the immediate future. Colin Clark recently estimated that, in order to absorb the increasing labour force and maintain even the past rate of increase in productivity, India would need savings at the rate of 12·5 per cent of her national income—a rate much larger than current investments per annum in the public and private sectors combined. On the other hand, it is arguable that if India waits indefinitely for voluntary savings to catch up with her actual requirements, the balance may never be struck and the goal of the Five Year Plan may never be reached. It is in this context that one has to evaluate the pros and cons of the mild dose of “deficit financing” which has been proposed in the Plan itself. The dangers of an inflationary spiral arising as a result of indiscriminate spending need not be minimised, but we may take comfort from the fact that only the other day the leader of the International Monetary Fund Mission paid a tribute to the general soundness of the economic and financial policy envisaged in the Plan. Reared as we have been in the orthodox British tradition of conservation finance, Mr. Bernestein’s advocacy of slightly “unbalanced budgets” may have shocked many of us, but the facts and instances cited above would show that, in a dynamic equilibrium, a certain measure of uncovered support by central banks or by other methods would be not merely desirable but necessary for a speedy attainment of our objectives.

This does not mean that the possibility of inflation (in the dynamic sense) should be overlooked. As has been emphasised in the Plan itself, “the scope for deficit financing is intimately bound up with the policy regarding physical controls. Without a firm and clear policy regarding controls, and without also an assurance of continuity in that policy over a period of time, not only does the scope for deficit financing become limited but there is a perpetual danger of even relatively small budgetary deficits generating inflationary pressures”. Secondly, although the budgets may remain unbalanced, the mobilisation of savings and of external

assistance for development purposes must continue to be of fundamental importance.

What is needed is a new kind of economic engineering, constructing a new framework of fiscal and institutional regulations to work out the economic policies of Government. The economy of the country should be viewed as a whole and over a given period, and not with reference to a particular sector or a particular fiscal year. While the soundness of public finances in the long run should be guaranteed, there should be enough flexibility from year to year. We should recognise that "unbalanced budgets" are not always an evil, and, provided deficit financing is resorted to as part of an overall plan and with due regard to the necessary physical controls, such spending may help to accelerate economic development and promote employment without bringing in its train the dreaded consequences of inflation.

XII

EFFECT OF POPULATION GROWTH ON THE PATTERN OF LIVELIHOOD

The Census of India carried out in 1951 as well as the latest Report of the National Income Committee just published, present a very disquieting picture of the economic situation in the country. The Census Commissioner has frankly stated that, in the context of the very large increase in population (an increase which may be even faster during the next thirty years than it was during 1921-51), the country faces a grave crisis. The National Income Committee is not as pessimistic as the Census Commissioner, but it underlines the fact that although the *per capita* income at current prices has risen from Rs. 246·9 in 1948-49 to Rs. 265·2 in 1950-51, there has been no appreciable improvement in real terms, *i.e.*, in relation to the higher cost of living, since 1931.

What has been the precise extent of population growth in India since the beginning of the present century? We find from the Census Report of 1951 that while, during the thirty-year period prior to 1921 (*i.e.* during 1891-1921), the net increase in population was only 12 millions, population had gone up by 109 millions during the subsequent thirty-year period (*i.e.* during 1921-1951). In a sense, this should be a cause for satisfaction, in as much as the contrast is due,

not to any material change in the birth-rate or normal death-rate, but to the fact that "abnormal" deaths due to famine, plague and localised epidemics of cholera, malaria, kala-azar and other fevers, which used to claim a great many victims in the pre-1921 period, have been largely controlled since 1921. But it is the consequence of this abnormal increase on the available factors of production which is disturbing to every serious student of economics and economic welfare.

The first direct consequence has been the decline of cultivation *per capita*. With the help of data collected from selected areas for which comparable statistics of tolerable reliability were available, the census authorities found that, while during the period 1891-1921, the area of cultivated land *per capita* was more or less stationary, there was a very substantial drop in the following thirty-year period from 111 cents in 1921 to 84 cents in 1951. In the absence of more intensive cultivation, this reduction in area must mean a corresponding diminution in the supply of food and other agricultural products.

It may be argued that a mere fall in the area need not necessarily mean a decline in the productivity of cultivation *per capita*. Now, to maintain *per capita* productivity at a stationary level—in the face of the fall in *per capita* cultivated land—one must assume (a) a large-scale change-over from traditional methods of cultivation to mechanised production, (b) introduction of double-cropping over a much higher area, and (c) the bringing in of a proportionately larger area under irrigation. In so far as the method of cultivation is concerned, we are all aware that no appreciable change has taken place. As regards the introduction of double-cropping and the bringing in of a larger area under irrigation, although there has been some advance, the figures given in the census report show that, on a *per capita* basis, the double-crop area fell from 13 cents in 1921 to 10 cents in 1951 while the irrigated area fell from 18 cents in 1921 to 14 cents in 1951. These figures conclusively

show that progress in *per capita* productivity could not have been commensurate with the increase in population.

Another consequence of the growth of population has been its repercussions on the pattern of livelihood of the people. The reduction in the *per capita* availability of cultivated land has naturally forced people to migrate from the rural areas to cities and towns—in a frantic search for work. This is evident from the relative figures of population growth in villages and towns. While the growth of population in the villages was only 38·7 per cent during the period 1921-51, the increase during the same period was 119·5 per cent in towns and cities. The rate of growth in towns is brought out more vividly in the population pattern of the ten largest cities (Greater Calcutta, Greater Bombay, Madras, Delhi, Hyderabad, Ahmedabad, Bangalore, Kanpur, Poona and Lucknow), where the increase was over 150 per cent between 1921 and 1951.

This phenomenal rise in the number of people living in towns and villages has not, however, been accompanied by a proportionate increase in the number of persons who derive their livelihood from industries and services—the so-called secondary and tertiary occupations. It is true that the volume of non-agricultural avocations has increased, but the overall pattern of distribution of the working population still remains substantially the same. In the primary sector (agriculture and allied activities), according to the report of the National Income Committee, 72·5 per cent of the working population is still engaged in the primary occupations. The corresponding figures in 1941 and 1951 were 67·0 and 68·2 per cent respectively. In other words, in terms of the total working force, the dependence of the people of India on agriculture and allied occupations has not decreased at all—on the other hand, there has been a slight increase.

The report of the National Income Committee also gives up-to-date figures of the working population engaged in the secondary (manufacture and mining) and tertiary (distribu-

tion, transport, public administration, domestic service and all other activities producing a non-material output) occupations. When compared with the corresponding figures of 1931 and 1941, the percentages present the following picture:—

		1931	1941	1951
Secondary occupations	...	10.2	14.1	10.6
Tertiary occupations	...	22.8	17.7	16.9

In other words, the working force engaged in secondary occupations is no higher now than it was two decades ago, while, in the tertiary sector, there has been a distinct fall.

As is well known, the working population has been increasing at the rate of about 1.3 millions per annum since 1941. There would have been some cause for satisfaction if this increase were at least proportionately absorbed in the secondary and tertiary sectors. But the actual figures of persons engaged in these two occupations during the past three years, as given in the latest report of the National Income Committee, show that this has not been the case. The following figures are relevant:

		Secondary occupations (In millions)	Tertiary occupations
1948-49	...	15.1	23.2
1949-50	...	15.2	23.7
1950-51	...	15.3	24.3

In other words, a very large number seem to be gravitating to the primary sector (agriculture and allied occupations), notwithstanding the fact that the *per capita* availability of land is going down.

What has been the result of this movement in so far as the agricultural classes are concerned? Here also the census report brings out a most disquieting series of facts. Of the 243.7 million persons (including their dependants) who derive their livelihood from land, as many as 31.6

million persons are cultivators of land wholly or partly unowned and 44·8 million persons are merely cultivating labourers. In other words, even in the field of agriculture, from where 72·5 per cent of the population derive their livelihood, nearly a third have no land which they may call their own. Unaccompanied by even a proportionate increase in non-agricultural employment, there has thus been a general increase in non-earning dependency among those who make their living out of land. According to the Census Commissioner, the increase in absolute number of non-earning dependants has even exceeded the entire increase of rural population of India.

The position is no better in the non-agricultural sector. Here also we find that, of the 32·4 million self-supporting persons who are engaged in various industries and services, as many as 16·5 million persons are "independent workers". They are neither employers nor employees: the vast majority of them are petty craftsmen and cottage industry workers who are handicapped by the lack of raw materials and capital and the high cost thereof. In a time of recession, these people become most vulnerable to the oscillations of business activity.

What then is the remedy? According to the Census Commissioner, "improvident maternity" (this is defined as "all births occurring to mothers who have already had three or more children") must be avoided at all costs, if the population and economic resources in the country are to reach a proper equilibrium. Now, nobody will deny that population control would be the best (perhaps the least painful) method of attaining economic stability and progress. But it is one thing to say that population should be controlled: it is quite another thing to get it done. If the experience of other countries is any guide, economic development is bound to bring in its train—at least in the initial stages—an increase in population and not a decrease. And we, in India, are keyed to a programme of rapid economic development. Secondly, as any student of population pro-

blems would testify, alteration in population trends—even with the adoption of positive measures—tends to take at least two to three generations to materialise.

While, therefore, we may continue to take suitable steps to control population, it would be foolish to assume that a population policy would become effective in the foreseeable future. Our policy will, therefore, have to be one of more intensive economic development—in the field of industry as well as of agriculture: the rate of development must be high enough to make the total real income increase faster than the growth of population. .

XIII

TRAINING OF TECHNICAL PERSONNEL FOR INDUSTRY

Ever since the attainment of independence, the need for rapid industrialisation has received a new emphasis. Indeed, it has come to be regarded as a panacea for all the ills resulting from the general economic backwardness and the increasing pressure of population in the country.

Unfortunately, however, rapid industrialisation cannot be achieved overnight as if by magic. In spite of very many favourable factors at work since the end of World War II, industrialisation has not taken place at a rate rapid enough even to offset the pressure of population on agriculture, much less to provide a rising standard of life for a growing population. Various causes are responsible for this state of affairs and among them is the paucity of trained personnel in relation to the needs of industry.

The organisation of technical and vocational training as part of a programme of economic planning has been a comparatively recent development in India. It is true that training facilities have been available in certain crafts and vocations for the last half a century, but the efforts have been spasmodic and unco-ordinated. There has been no clearly

defined objective nor have training courses, wherever they have existed, been properly planned.

Extension and development of facilities for technical training are the fundamental bases on which any plan of economic development should be formulated. Facilities need to be expanded and improved upon, not merely in the spheres of post-graduate and under-graduate training, but also in those sectors from which industrial workers and supervisors are drawn into industry. The nature and extent of the problem can, however, be properly understood only against the background of existing facilities and in relation to a reasonably accurate assessment of the need for technical manpower in the foreseeable future.

No proper assessment has been made in this country yet of the requirements of industry in respect of technical personnel. The Scientific Manpower Committee set up by the Government of India a few years ago surveyed actual conditions in the country as also the trends of industrial development during the next five to ten years, and prepared certain rough estimates of the technical personnel which would be required for manning the various industrial projects, Government as well as private. These estimates have, however, become out-of-date as a result of far-reaching changes in the industrial and economic policies of the Government. Even the Planning Commission has not been able to throw much light on this matter, although it may be argued that the requirements of technical manpower can be worked out from the Plan itself.

We have, therefore, to proceed on certain very general assumptions. These are that—

- (a) there is a wide gap between the possible requirements and the anticipated out-turn of technical personnel, and
- (b) the resources available for the training of manpower are inadequate and the facilities which exist are often unsatisfactory.

Looking at the situation from another angle, the problem appears to be of a two-fold character. Quantitatively, the requirements are far more than what it is possible to train, with the facilities available at present in the educational institutions and other training establishments in the country. For instance, for manning the several national laboratories and other research establishments of industry and Government, India requires over 5,000 research workers, well trained in the various branches of science and technology. As against these requirements, the present and prospective out-turn of research workers from the universities and other educational institutions is totally inadequate. Qualitatively, quite a few types and classes of scientific and technical personnel cannot be trained in this country at all. This applies particularly to the lack of training facilities for certain categories of personnel required for the heavy chemicals and engineering industries, and the various hydro-electric projects.

Training facilities for the manpower required by industry may be grouped under three main heads:

- (i) Facilities for post-graduate and higher training ;
- (ii) Facilities for under-graduate training; and
- (iii) Facilities for the training of junior workers.

Now, as far as (i) is concerned, the facilities are admittedly limited. There are only three or four institutions in the whole country which provide opportunities for really advanced technical training and even these are restricted to a few specialised branches of technology. The various universities and such institutions as the Indian Institute of Science, Bangalore, are typical instances of such institutions. Of the four higher Technical institutions proposed for the northern, southern, eastern and western zones of the country, on the lines of the Massachusetts Institute of Technology, only one, *viz.*, the institution in the eastern zone has actually started working, and the remaining three are still in the blue-print stage.

In striking contrast to post-graduate training, undergraduate training has expanded considerably, especially in the three basic branches of engineering—civil, mechanical and electrical. There are nearly 30 Engineering Colleges in the country, offering degree courses in the various branches of engineering. Facilities for training in other technological subjects are, however, severely limited and there are only 8 or 9 first grade institutions in the country teaching technological subjects, other than engineering, up to the degree or undergraduate standard.

But it is in regard to the training of junior technical workers that the existing arrangements are most inadequate and unsatisfactory. Now, a programme of vocational and technical training for industrial workers must be distinguished from arrangements which exist in most countries for the training of young persons in a trade or occupation. The latter generally accompanies and forms part of a scheme of general education and is usually spread over a fairly long period. Technical and vocational training for industrial workers, on the other hand, aims at giving them a special knowledge of a particular craft or trade. In most cases, there is no question of a complete, all-embracing training such as is necessary for young persons.

Technical and vocational training for junior industrial workers is available in India today in three main types of institutions:

- (i) technical and industrial schools run by the various State Governments and certain privately managed institutions;
- (ii) industrial establishments; and
- (iii) industrial training institutes set up by the Government of India.

Let us consider the type and content of training imparted in the three types of institutions enumerated above. The technical and industrial schools set up by the State Governments at their own cost or by quasi-Government and

private bodies, prepare young boys for employment as skilled workers both in factory and in cottage industries. The courses for factory employment include such trades as blacksmithy, carpentry, pattern-making, moulding, fitting, machine operation, etc. The curriculum for cottage industries includes handweaving of cotton and silk, bleaching and dyeing, calico printing, carpet weaving, manufacture of foot-wear and other leather goods, manufacture of hosiery, basketry and cane work, etc.

There are about 600 such schools in existence in India at present with over 27,000 students on the rolls and the annual output is estimated at 7,000. The main defect of these institutions is that the courses of training are not intensive enough and the standard of training also varies considerably from State to State. While some of the schools provide a systematic and thorough training, others turn out only half-baked workers who find it extremely difficult to secure suitable employment.

Training facilities offered by industrial establishments, on the other hand, generally partake of the character of apprenticeship training. Here, the annual intake is largely dependent on the actual requirements of the establishments providing the training, although, in some establishments, apprentices are taken with reference to the probable needs of industry as a whole on a foreseeable future date. In these latter cases, there is no guarantee of employment on the completion of the course of training, and those who successfully complete the course are merely awarded a certificate of proficiency.

The best type of apprenticeship training is available in the engineering industry, railways, ordnance factories and dock-yards. Training facilities are, however, inadequate and spasmodic in non-engineering industries, the most important exceptions being the cotton textile industry and the recently established Hindusthan Aircraft Factory in Bangalore. Speaking in very general terms, there is no scheme of apprenticeship training for the bulk of industrial workers in this coun-

try, and the usual method of imparting training in large-scale factories is to recruit raw youths and put them on to the least skilled occupation in a factory. The so-called training is neither very systematic nor well-organised. There is little supervision and facilities for theoretical instruction are generally lacking. The usual practice is to place the apprentice under an experienced worker and leave him to learn as best as he can. The worker under whom an apprentice is placed is unwilling, and perhaps rightly so, to trust the apprentice with his machine, as he sees in him a potential competitor. The result is that, in many establishments, a large part of the time of the apprentice is spent as an observer. Instances are also not lacking of apprentices being used by unscrupulous employers on work unconnected with training.

Finally, mention should be made of the various Industrial Training Institutes set up by the Government of India. They are of comparatively recent growth, most of them having been utilised during the war period for the turning out of skilled workers for war industries and, during the immediate post-war period, for the resettlement of ex-Servicemen and displaced persons only. It was only in the middle of 1950 that a regular training programme for industrial workers was drawn up when it was decided to utilise some of the war-time training centres for this new kind of training. While organising this training, steps have been taken to ensure that the courses are both intensive and practical and are what industry actually requires. Arrangements have also been made in this scheme for a short period of apprenticeship in an approved factory or workshop after the trainees have finished their regular course at the institute.

We thus see that even today, there is no properly organised programme for training the technical personnel required for industry. A start has no doubt been made in certain directions, but it would be idle to pretend that it meets all the desiderata of a planned programme. So far, there has been no survey of the manpower resources in the country

nor has a proper study been made of the requirements of industry for technical personnel of different categories. As a result, so-called training programmes have often been leaps in the dark.

What is needed today is the carrying out of a nationwide survey of the requirements of industry for various skills, the adjustment of training programmes to man-power needs and the co-ordination and levelling up of the various kinds of training facilities which already exist in the country. It may also be necessary to enact suitable apprenticeship legislation, establishing the rights and obligations of employers and apprentices, laying down standards of training and making arrangements for the supervision of this method of training. All these will require the close co-operation of industry and it is hoped that this co-operation will be forthcoming in ample measure.

XIV

THE PRODUCTIVITY OF INDIAN LABOUR

“Considerable attention has been focussed, in recent years, on the productivity of labour both in this country and abroad. Employers in India have complained that productivity per worker has been going down. Workers contest this allegation with equal vehemence.” These remarks of the Planning Commission describe in a nutshell the importance which the subject of labour productivity has assumed in the context of various plans for economic development.

Now, productivity is a general term. It can be related to any of the three factors of production—land, labour or capital. In the ultimate analysis, however, production is to be evaluated in terms of the benefit it confers on the community. Secondly, as man is the principal agent of production, labour productivity is the most important of the relationships between productivity and the various factors of production.

A product can be looked upon as the outcome of capital employing labour or of labour employing capital. If the latter concept is accepted, labour becomes the basic factor of production, and not merely one of the factors. Indeed, one may almost say that production is predominantly the

fruit of labour and the major costs of production should, in the ultimate analysis, be reduced to labour costs.

What is the scope of the term "productivity"? Productivity of labour should not be confused with efficiency, which is primarily a measure of the worker's efforts. The worker is not a complete master of his productivity. The tools and machines used, the techniques followed, the nature of the raw materials consumed and the technical organisation of the factory where he works have, in most cases, more influence on productivity than the physical or mental efforts the worker makes. A distinction should also be made between machine-paced and man-paced work. When there is an automatic machine, productivity or even efficiency is controlled more by the machine than by the man. Negatively, increase in productivity should not always be identified with harder work on the part of labour, nor decrease in productivity with slackness.

Interesting comparisons have been made by some economists about the relative productivity of labour in various countries. The most important of such comparisons are those made by Colin Clark who has attempted to reduce available data into universally accepted "international units". Thus, according to him, a worker in U.S.A. produces 1.186 international units, one in Great Britain produces .588 units, while workers in India and China respectively produce .096 and .033 units only.

Others have attempted to measure labour productivity in terms of total productivity yields. Thus, attempts have been made by the League of Nations and, later, by certain specialised agencies of the United Nations, to compare the yield per acre of some crops in different countries. For instance, it has been argued that the productivity of agricultural labour is greater in Denmark than in, say, India, because the wheat-yield in Denmark is 29.7 quintals per hectare while that in India is only 7.3 quintals per hectare. Similarly, the lesser yield of rice (1,240 lbs. per acre) in India has been held up as a proof of the low productivity of

Indian agricultural labour, as against an average yield of 3,444 lbs. per acre in Japan and 4,568 lbs. per acre in Italy.

There are still others who have sought to draw similar conclusions from the actual figures of production in the manufacturing industries in the various countries. For instance, a distinguished economist has stated that the productivity of industrial labour in U.S.A. must be greater than that in Great Britain, because the average product per man-hour in the former country is 1.065 international units while that in the latter is only .365 international units.

Now, a closer examination would show that such comparisons are not merely erroneous, but positively misleading. In the primary industries (*i.e.* agriculture, forests and fisheries), to determine the net productivity of labour, we have to make allowances, among other things, for (a) density of settlement, (b) differences of climate, (c) differences of soil and (d) differences in the organisation of agriculture. Not infrequently, yields would seem highest in countries in which very little of the crop in question is grown and in which, therefore, the soils for growing it can be carefully selected, while they would be low in countries where the crop is grown extensively at low cost on arid or arctic soils.

Similarly, in the secondary sector (*i.e.* manufacturing industries), comparisons become difficult because output is not always examined in physical units: if output is examined in monetary terms, it may so happen that high physical productivity would be masked by the relatively low price at which the product may have to be sold in an imperfect market. Secondly, the conditions under which articles are manufactured vary so widely from country to country that a comparison of even physical productivity may be unfair to countries in which the technical and social organisation of production is not up-to-date.

What are the factors which affect the productivity of labour? These may be classified broadly under three heads: (a) general factors, (b) technical factors and (c) human

factors. Under "general factors" would come influences such as climate, geographical distribution of raw materials, organisation of the labour market, degree of unemployment, labour shortages and labour turnover. "Technical factors" will include standardisation of work and material, wear and tear of machinery, quality and amount of machinery available, distribution of labour as between different operations, degree of integration within the factory, and control over raw material. Equally important are the "human factors" such as labour management relations, social and psychological conditions of work, wage incentives, physical fatigue, composition of the labour force and trade union practices.

Let us now consider the operation of these factors in India. Shortages of food, inadequate medical facilities, the poor state of the physical health of workers, and bad living conditions have led to a high degree of absenteeism. Lack of capital equipment and absence of industrial integration also hamper productivity, and so do the old and antiquated equipment and machinery with which labour has to work.

Hardly any data are available about the productivity of labour in the different industries of India. Still less are there any data to show whether this productivity has been rising or falling or has remained stationary. Even ordinarily, measurement of labour productivity is not an easy matter: it becomes particularly difficult in the absence of statistics in regard to most of the factors affecting production.

Notwithstanding the difficulties mentioned above, some people have sought to make out that the productivity of labour in this country has been on the decline. It has been asserted by many employers that both productivity and labour efficiency have diminished and that higher incomes, far from providing an incentive towards greater productivity, have encouraged absenteeism and indiscipline among workers which are alleged to be the principal cause of dete-

rioration in the quality and volume of output. Some of them have ascribed the absence of higher productivity to the increasing tendency on the part of labour (a) to enjoy the leisure resulting from higher wages and (b) to share the available volume of work with all rather than reduce employment by individual intensive efforts. Even the Indian Fiscal Commission, which reported in July 1950, has remarked that there has been a fall in labour productivity in India. -

It is not denied that, in a few industries today, the number of men employed in various production processes is more than the optimum number required for a given output. It is also obvious that such "excess" over the required optimum tends to diminish individual productivity which in turn depresses wages and increases the cost of unit output. But there is no conclusive evidence to show that labour productivity as a whole and in the true sense of the term has been on the downward grade in India.

Now, productivity depends not merely on the number employed in particular industries, but also on the general quality and over-all size of a country's labour force. In India, as in other countries of Asia, large populations and limited avenues of employment have made the problem of labour productivity much more intricate and complex than in countries with smaller populations. The very pressure of population on the means of subsistence tends to reduce productivity per head. An important condition for higher productivity and greater labour efficiency, therefore, is the creation of additional employment opportunities through economic development.

For the effective implementation of plans of greater employment, it is essential that there should also be plans for the control of population growth. Population, however, is least amenable to control. In India, the proportion of available labour to the material means of production is already very high and a steady reduction of that ratio can be achieved only on a long-term basis.

But it is not the size of the working population alone which affects productivity, but also the capital and the capital-intensive methods employed therewith. Notwithstanding facile assertions to the contrary, the fact remains that the individual worker in India is not inferior either in capacity or in the ability to apply technical skill, to his compeer in the West. The difference between labour productivity in the U.S.A., for instance, and that in India can be traced to better mechanical equipment, superior technical organisation and improved human relations in industry in the former country. The standard of living which has an important bearing on the efficiency of the worker is also higher in the U.S.A. than in India. According to the British Cotton Weaving Productivity Team that visited the United States in 1950, the high productivity of the American textile industry was largely the result of efficient utilisation of suitable machines. Among the other reasons mentioned were: good labour relations, keenness on the part of management to increase efficiency, good working conditions and the importance attached to quality control, mill testing and research.

In practically every country, increased productivity per worker has been achieved through technical improvements. In the U.S.S.R., increase in productivity during the period following the first World War was due to such causes as better utilisation of machines, introduction of new equipment, more even supply of raw materials, organisational improvements, extension of technical processes for obtaining raw materials, and specialisation of production. In New Zealand, the rapid increase in farm productivity after 1920 has been ascribed to intensified top dressing and improved drainage, water supply, irrigation and farm shelter; to the supplementation of animal power by tractors and the increasing use of electric motors; and to the extended use of milking plants, trucks, railroads and motor cars.

These instances could be multiplied several times. The

instances already cited, however, amply show that increased labour productivity could be achieved in India also, if industry were able to secure better capital equipment and effect certain much-needed technical improvements. Nor should we lose sight of such human factors as labour management relations, social and psychological conditions of work, wage incentives, etc. Finally, the State must take a lead in creating those physical conditions of life and living which have a direct bearing on the efficiency of the worker and hence on the productivity of labour.

What then should be done? First and foremost, the social enthusiasm of the workers for organised effort must be aroused. This can happen only if the economic and social effects of higher productivity are properly put across to them. They would also need to be assured that the fruits of higher productivity would be shared by them in terms of higher wages, greater leisure and greater material comfort and that higher productivity would not be achieved by putting physical and economic pressure on them.

The second pre-requisite is the provision of improved equipment and proper training of workers so that they may acquire the technical know-how. In organising training, efforts should be made to direct the flow of technical skills into the requisite channels so that the labour force may be distributed in different occupations in a manner best suited to the requirements of the country.

Thirdly, there should exist the maximum possible co-operation between organised labour and management at all levels. At the factory level, this should take the form of mutual discussions on specific problems of productivity and experimentation with new methods or machines approved by both parties. The experience of all countries during the last War has shown that the practice of industrial democracy at the factory level is the most effective means of increasing productivity.

Fourthly, efforts to increase productivity should be directed towards a few well-chosen projects and only such

targets should be set as are capable of attainment with the resources available. This is an important point as, with the inadequate resources available to India, grandiose schemes which are more ambitious than practical may lead to wasteful efforts. As has been remarked by a distinguished economist, "dearth of well-conceived development plans ready for financing is often a more serious limitation than dearth of capital".

A word may be said about productivity and the wage level. Wage incentives do play a prominent part in raising the productivity of labour, but an attempt to peg wages to productivity will neither be feasible nor acceptable to organised labour. Only if prior agreement is reached between labour and management on the question of linking output with wages, may it become possible to apply the principle of payment by results over a large field of industry. But the success of any experiment of this kind would depend largely on the existence of harmonious relationship and understanding between labour and management.

To conclude, Indian labour is as efficient, in a given set of conditions, as labour in any other part of the world. Its apparently low level of productivity is due to poor industrial organisation, bad working and living conditions, and inadequate industrial capital and mechanical equipment. It is also due to the excessively high proportion of the working population to available employment opportunities. If the required tools were given, the Indian worker could and would produce more. If they could be encouraged to think out new techniques and to share in the responsibility for increased output, there is no doubt whatsoever that they would respond with enthusiasm.

XV

HUMAN RELATIONS IN INDUSTRY

During the last fifty years great changes have taken place in the social concepts regarding the basic approach to the labour problem. We have progressed from the stage when labour was considered to be a commodity to the stage in which labour is considered a partner in industry, a co-sharer in the responsibilities of production and management as well as in the fruits thereof. The advance made in the translation of these theories into actual practice has, however, been neither uniform nor speedy. This is due to several reasons. As a general rule, doctrines on which men agree do not necessarily influence their behaviour, social or otherwise, to the extent that may be considered logical. In industry, the motive power for change on the labour front has been the pressure of organised striking power developed by groups of workers. In spite of the general acceptance of the need for enlightened and socially just treatment of labour by employers (or 'management'), the general pattern of industrial relations in the world is still of two opposing groups tugging in opposite directions at the end of a rope, a trial of strength between unwilling employers and unreasoning workers.

In the first phase of the development of industrial rela-

tions, attention was directed solely to the problem of wages and other monetary rewards for workmen. The approach was from a strictly limited economic angle and the worker was looked upon as an 'economic man' who should react to 'economic incentives in an arithmetical manner'. Problems were considered and dealt with in compartments and separate sets of standards were applied to their solution. As these standards were largely formulated in terms advantageous to owners of capital and in a spirit of surrendering as little of the profits of industry to labour as possible, the results achieved have not been satisfactory. This phase has, however, long been passed in most industrial countries, in theory if not always in practice, and it has been recognised that problems which arise in modern industry are closely interwoven with human relations problems. It has been the experience of all countries that "remedies" which do not take this essential point into consideration fail to cure industrial ills.

Today, the human factor in industrial relations is being recognised as of foremost importance. A proper appreciation of the problem is necessary not only for the sake of industrial peace but also for increasing the productivity of industry. Hitherto, man was sought to be fitted into a pattern in which machines played the central rôle. It is being realised, however, that man and not machines should hold the centre of the stage and that the manner in which he acts and reacts to various situations is of vital significance. While technological and scientific progress has placed in the hands of man powers that can make for a more prosperous life all round, social progress has lagged behind and various maladjustments have created problems which modern industrial society is finding it difficult to solve. It may be mentioned here that there has been considerable research in recent years, particularly in America and England, in regard to the psychology, motives, and incentives of industrial workers and their behaviour reactions in given situations. The investigations made by the Academy

of Human Relations in Industry, in Washington, have opened up an entirely new line of approach towards these problems.

"The achievements of physical science, of chemistry, of medicine, in the last century have been very great ; but the very dimension of these achievements has thrown society out of balance. And until such time as sociology and psychology can, out of lowly and pedestrian skills, develop the beginning of understanding, until then we shall continue to find technical advance provocative of social chaos and anarchy". The above remarks of a recent writer on the social problems of our industrial civilisation describe in a nutshell the challenge which faces industrial society to-day. In their search for technical progress, men have neglected to study human satisfactions. Modern industry has perfected technical organisation but the human aspects have not received adequate attention. Side by side with advance in technology, society must ensure a happier life for the workmen who contribute towards production. It is indeed tragic that although there has been phenomenal material progress in the world to-day, there has also been a decline in the ability of man to live and work together in harmony. Industries are torn by strife, with management and labour arrayed against each other. In Europe and U.S.A. new groups—office workers, engineers, foremen—are organising to protect themselves. Workers seem to feel that they are not part of the management and must defend themselves against it. What should be well-integrated and co-operative units are split into warring factions.

The impact of industrial progress on society and on established social institutions has been such as to confuse the worker in more ways than one. "It is impossible to imagine adequately the bewilderment of the Indian worker drawn in from his village, where life has moved sluggishly along grooves of custom and tradition for centuries, and hurled into the vortex of factory life with its insistence on speed, precision and punctuality". Moreover, in large

urban areas where industrial populations are generally concentrated, the attachment of the individual to the neighbourhood in which he lives is very slender, because its composition constantly changes as people come and go. As a result, the work-place assumes much greater importance to the worker than ever before. Nonetheless, he pines for an opportunity to escape from routine and drudgery and it is with a certain degree of resignation that he accepts the factory as the social unit or community around which must revolve the interests, health and happiness of himself and of others working with him. ✓

✓ The maintenance of continuous good relations between employers and workpeople is of vital concern not only to these two groups but to the State as well. Increased industrial production, on which so much of the welfare of the community as a whole depends, requires the existence of an atmosphere free from strife. ✓

While the proximate cause for most industrial conflicts is an economic one, such as a claim for a rise in wages or a grievance as to hours of work, there are often deeper and more powerful causes at work. Sometimes it is a desire on the part of labour unions to make a public demonstration of their strength. Sometimes it is simply a feeling of frustration at having been completely divorced from ownership of the instrument of production and from control of the product. In the more advanced countries of the West, such as America, where wage levels are high and sweat-shop working conditions are things of the past, the desire to keep intact the loyalty of the worker to the trade union plays a more conscious rôle in labour relations than in poorer countries like India where the prospect of a small rise in emoluments is enough to make the underpaid workman wonder what he should do.

✓ In India, the immediate problem in labour-management relations is the provision of a fair wage and reasonable conditions of physical living for the workmen. As is well-known, the wages earned by the average Indian worker are

hardly adequate for the maintenance of his physical efficiency. The first desideratum, therefore, is to establish some parity between wages and an acceptable minimum standard of living. The Minimum Wages Act, which is being gradually implemented, is only a beginning in this direction. The successful translation into practical shape of the ideals behind the Minimum Wages Act requires a good deal more than legal compulsion. It calls for an enlightened approach on the part of the employer—an approach based on an appreciation of the basic requirements of the factory worker.

It was in recognition of the need for evolving a socially acceptable basis for the determination of wages in industry, that the Government of India set up a Committee on Fair Wages. The deliberations of this Committee have covered much ground and helped to assess the area of common agreement between the parties concerned. While these recommendations have not been implemented yet, they indicate a new approach to the problem of human relations in industry in this country.

That healthy trade unionism can exert a stabilising influence on the relationship between management and labour is universally accepted. Given proper scope, trade unions are in a position to promote co-operative and productive relationships in all situations that may arise in industry.

In India, however, trade unions are not completely “trusted” by the management yet, with the result that the former do not sometimes feel the urge to exert their influence on the side of co-operative endeavour. Moreover, discussions and agreement on principles governing labour management relations often take place at the policy-making level without such agreements being attempted at the workshop or factory level. The crying need is for mutual understanding and co-operation between workers and management at the factory level: better human relations in industry must be built up from below upwards.

Although trade unions are an integral part of modern

industrial organisation and have an important rôle to play in the economic and social sphere, their incursions into the political field complicate an already difficult situation. While there should be no objection to trade unionists having their own political beliefs, the embracing of specific political ideologies and the subordination of the interests of labour to those ideologies by a trade union cannot but weaken it as an instrument for the better organisation of social and economic relations in industry. Unfortunately, trade union activity in India is still to a large extent pseudo-political. The result is that considerations extraneous to an economic and social approach to the problem of human relations often sway the minds of trade union leadership.

The work-place and his job mean more to a modern industrial worker than they did to his predecessor a few decades ago. He spends most of his life on the job, circumscribed by the four walls of the factory or office. His friends and enemies, his hopes and fears, his future—in short, his whole social and professional life is intimately tied up with it. Satisfaction from work, therefore, is an emotional need, the thwarting of which, whatever may be the cause, reduces the value of the individual as a worker. Now, these satisfactions depend on a number of factors, the most fundamental of which is the existence of happy relations between him and his immediate supervisors and other members of the work group.

The impersonal relations that obtain in a modern factory between the management and workmen often make workers feel neglected. As a corrective to this, personnel departments have been organised in factories by many enlightened employers in Europe and America. These departments attempt to help the individual to adjust himself to the team with which he works. They seek to find out what is wrong with the worker who inclines to behave outside the customary or approved pattern.

Equally important, however, is a study of the organisational problem, because maladjustments of indivi-

duals in their works relations almost always arise from maladjustments in human relations in the factory. Research has shown that, within the limits set by organisational factors, the productive capacity of a worker is governed largely by his attitude towards his job, which in turn is influenced by his relationship with his immediate supervisors and his colleagues. A man who likes his job and his immediate supervisors is likely to be a more efficient worker than one who does not. And this is a human relations problem.

One of the problems in labour relations is to create interest among workmen in the work they are doing and generally in the fortunes of the company or firm they are working for. People do not feel enthused about a thing unless they know what it is about. It is, therefore, necessary for the management to keep workers informed about new developments, the progress made by the firm from time to time and in general to make them feel that they are an integral part of the organisation. From this point of view, a reasonable, or even a generous, wage policy is not adequate. (A worker who is kept regularly informed of the changing fortunes of the company he is working for, in a process of joint consultation, is likely to be more understanding in his attitude towards the problems of the firm and is likely to be an influence against industrial conflict than one who knows nothing more than the amount of wage he receives. Even when such benefits as medical care, recreation facilities, paid holiday, further education schemes and other welfare services have been provided, the worker needs something more to attach him emotionally to his place of work. He is likely to find this bond if he feels that he is considered to be a partner in all the activities of the firm.

In some of the European countries, councils and committees of the management and workers have been set up in many undertakings, not so much with a view to discussing questions of wages and welfare, but to make the

workers feel that they are partners in a joint enterprise. It has been found that, as a result, there has been not merely an improvement in industrial relations, but also an increase in production.

In recent years, profit sharing and co-partnership schemes have come to be regarded as valuable instruments for fostering satisfactory relations between the employer and the employees. In a profit-sharing scheme, the actual additional income which accrues to the worker may be insignificant compared to the wages and other allowances he receives, but the very sense of partnership which is created has its value as a means of establishing good industrial relations. In India, the Report of the Committee on Profit-sharing has evoked criticism from many employers. While there may be honest differences of opinion as to how labour's share in the surplus profits of industry should be calculated, there is general agreement that profit-sharing in some form or other would secure industrial peace and be a step forward in the direction of employer-employee collaboration in the task of increasing industrial production.

A co-partnership scheme,¹ on the other hand, seeks to give labour a share in the capital of the company, making them so many little capitalists. Here, the psychological basis is different: the suggestion is that the worker should feel that he is as good as the employer, and equally responsible, as he holds a share of the capital of the enterprise. There is an unconscious assumption that labour normally occupies an inferior position in industry, which is sought to be corrected by giving it a share of the capital. In those countries where co-partnership has been tried out, it has been found that it has not, by itself, fostered good human relations in industry. The possession of a few shares, usually without voting rights or a voice in management, the income from which is negligible, has not made any significant difference in the attitude of labour to their work or to the employer.

Modern industry has made deep inroads into the many facets of society and brought about changes of an abiding and far-reaching character. While the old equilibrium has been upset, a new equilibrium has not been reached yet. The feeling of security and stability, which society of the pre-industrial days gave to workmen and the sense of attachment engendered by close personal ties no longer exist under modern industrial conditions. Formerly, the village was the social unit; to-day, the factory has taken its place. It is important to realise that the factory is not just a place of work: it is the place where the greater part of the life of the worker is spent. Work in a modern industrial establishment is so exacting that, after the day's labour, a worker has little energy left to pursue any mental satisfaction. The conditions that make for the growth of human personality have, therefore, to be found within the factory or associated with it. An organised society, in the person of the State, must, therefore, provide the new social needs which modern industrial conditions have created.

In India, as elsewhere, the main problem is the establishment of harmonious relations between employers and labour, as part of an endeavour to evolve a co-operative industrial society. In seeking to do this, India has her own special difficulties to overcome. Satisfactory human relations on the basis of 'respect for human personality' can make a beginning, only if workers are paid fair wages and assured reasonable conditions of work and welfare. India has not crossed this stage yet. Until workers feel that they are getting fair wages and are being provided with those basic amenities which workers in any industrial society can demand as a matter of right, all talks of a share in profits and participation in industry must appear to them unreal and chimerical.

Nevertheless, there are signs that Indian workers are also becoming aware of their status as a partner in industry. It is in this context that the need for setting up a machinery for joint consultations becomes so imperative. Joint

consultation is necessary at three levels—at the level of the undertaking, at the level of industry and at the national level. Satisfactory arrangements already exist for joint consultations at the national level and also at the level of industry. The various tripartite Industrial Committees which have been set up to study the problems peculiar to particular industries (*e.g.* cotton, jute, coal, cement and plantations) aim not merely at increasing the level of production and efficiency in the branch of the economy concerned, but at improving human relations and raising the standard of life of the workers as well. Similarly, the Joint Consultative Board set up on the recommendation of the Planning Commission should help to ensure increased employer-worker collaboration at the national level.

Unfortunately, however, the arrangements for joint consultation at the level of the undertaking have not been very successful yet. Although Works Committees have been set up in a number of large undertakings, their functioning has not been as effective as might be desired. Generally speaking, they have not succeeded in deciding major issues, which have tended to be settled by strike, conciliation or arbitration. The principal reasons for this state of affairs have been that (a) labour representation on these Committees has often been divided between opposing trade unions with the result that discussions have led to a stalemate on most issues ; (b) many employers have not taken enthusiastically to these joint consultations at the factory level and have regarded Works Committees as irksome restrictions on their right to manage their concerns as they deem best; and (c) some workers' representatives have argued that these Joint Consultative Committees are but traps to divert their attention from the path of collective bargaining.

To make these Committees at the factory level succeed, it will be necessary, both for the employers and the workers, to work them in a spirit of compromise and mutual understanding. Government should lay down—in full agree-

ment with organised industry and labour—how the representatives of the personnel should be selected for these Works Committees. They must also specify the number of representatives of employers and workers who should serve on these Committees and what categories of persons employed in the undertaking should be represented thereon. Finally, Government must indicate the scope of work of these Committees—what social and economic functions should come within their purview and what should be left for discussion at the industrial or national level.

It is this last point which is most important. There is a danger that the functions of these Works Committees may encroach on those of the management, trade unions or public authorities, and it may, therefore, become necessary to specifically exclude certain matters from their purview. On the other hand, there is also a danger that these Committees may be assigned a very minor part in the great drama of labour-management partnership, with the result that indifference and a sense of frustration may make the arrangements for consultation and co-operation, howsoever well-conceived, a complete failure.

It will be necessary, therefore, to guard against both the dangers referred to above. If it is remembered that one of the main functions of the machinery for co-operation is the promotion of good understanding between the management and the workers, and if the representatives both of employers and workers strive unselfishly to this end, Works Committees or Joint Consultation Committees at the level of industrial undertakings may well serve as the basis for better human relations in industry. Modern industrial society, with all its contradictions, conflicts and strains, has come to stay. As in other countries, India will have to accept it as a given fact and make the best possible efforts to solve the maladjustments created by it. With a proper appreciation of the human factor in industrial relationship, it should not be beyond the genius of the Indian people to strike a satisfactory balance.

XVI

THE ILO AND WHAT IT CAN DO FOR INDIA

Few people in this country are aware of the existence of the International Labour Organisation. Fewer still know what the ILO stands for and what it has done, and can do, for the economic development of underdeveloped countries like India.

The ILO is one of the oldest of the international organisations now in existence. It was first constituted in April, 1919, as an autonomous institution associated with the League of Nations, but it came into existence even before the League was formally constituted. There were two main reasons for this urgency. Firstly, the Allies were impelled by motives of gratitude for the wartime sacrifices made by workers and wanted to show their gratefulness in a concrete form. Secondly, some at least of the Allies, particularly France, UK and USA (USA did not, however, become a member of the ILO until 1933), were urged into action by an enlightened sense of precaution against the threat of militant class conflict which was then seeking to engulf countries like Hungary, Austria, France and Italy.

But it would be unfair to the ILO to say that considerations of expediency alone led to its birth. Although the reference to the "permanent peace of the world" in the

Preamble to its Constitution may sound like a mere rhetorical flourish, almost reminiscent of the Preamble to the Holy Alliance, the founders of the ILO were motivated by a genuine desire to secure peace by practical methods. They felt that peace, if it was to be a living reality, had to be positive and dynamic and to be translated into concrete social action for the uplift of workers all over the world.

The uniqueness of the ILO lies in the fact that *it is the only international organisation which is not simply a composite body of Governments*. As early as 1919, it made the daring provision that non-Government delegates should enjoy equal voting power and equal status with Government delegates, not merely at the annual International Labour Conferences but also on the executive organ of the ILO, *viz.*, its Governing Body. Each country is represented by four delegates—two from Government, one from the most representative association of employers and one from the corresponding association of workers. Although the employers' and workers' representatives are selected by the Governments concerned, the selection must be made in consultation with the most representative associations, and the ILO, through its Credentials Committee, jealously sees to it that all Governments conform to this rule. Secondly, in contrast with orthodox international practice, each of these four delegates from a particular country votes individually and, on many occasions, voting alignments have shown a marked tendency to follow group rather than national loyalties.

Another point which goes to the credit of the ILO is that from the very beginning it has been intensely practical and positive in its outlook. When the first International Labour Conference met in October, 1919, in Washington, D.C., it did not waste its time discussing procedures or preambles, but got down to the job of framing international labour legislation straightaway, and at this very first conference a number of Conventions and Recommendations were adopted. This attitude has been maintained ever

since and, in succeeding conferences the ILO has gradually built up a series of Conventions and Recommendations, which have steadily developed into an International Labour Code, for all countries to draw upon.

What has the ILO done all these years? According to Edward Phelan, an ex-Director-General of this body, the ILO has achieved three things: (a) it has created a common social consciousness ; (b) it has exerted a profound influence on political structure and development ; and (c) it has contributed to a new world order. Its various Conventions and Recommendations have protected and enhanced human dignity, advanced the economic security of the individual and afforded greater opportunities for his spiritual and political development. Nearly 100 Conventions and over 90 Recommendations have been adopted so far, covering a wide range of subjects, such as hours of work, unemployment, wages, apprenticeship, employment of women and children, maritime labour, maternity, social security, industrial relations, freedom of association, etc., and the total number of ratifications up-to-date has been nearly 2,000. Much of the social legislation in recent years has been directly inspired or considerably influenced by the ILO.

As regards the influence exercised by the ILO on political structure and development, the growth of the trade union movement and the important niche it has occupied in the political structure of many countries, has been due, in no small measure, to the status of equality accorded to the workers' delegates, employers' delegates and Government delegates. Moreover, on many occasions, the ILO has given a lead to Governments debating with one another with fear and suspicion lurking in their minds. As early as 1919, Germany and Austria were admitted to its membership long before they were members of the League of Nations. Again, in 1951, the ILO admitted the Federal Republic of Germany and Japan as members, although they had no place in the United Nations. Two new countries, Libya and Ceylon, have also been admitted into ILO membership within the

past two years, and the resumption of membership by Yugoslavia—after a brief spell of absence—is a further tribute to the ILO. Finally, in 1954, the ILO admitted into full membership USSR and certain other countries belonging to the Soviet bloc. In taking all these decisions, fundamentally political in character, the ILO has been able to rise above narrow technical limits and to establish daring precedents.

The contribution of the ILO to a new world order follows more or less directly from the above. All the international organisations which came into existence after the first World War were wiped away from the map by the second World War, but the ILO continued to function as strong as ever. Even in 1941—at the height of the War—it held an international conference in New York: this was attended by delegates from the free belligerent countries, by representatives of all the exiled Governments of the Nazi-occupied countries and also by representatives of their employers and workers. Three years later, with the War still raging, the ILO met in Philadelphia in 1944 and drew up its famous Declaration, reaffirming with new emphasis that labour was not a commodity and that poverty anywhere constituted a danger to prosperity everywhere.

Since the end of the second World War, the ILO has grown further in stature and risen still higher in the esteem of the world. Thus, while between the two World Wars, the ILO's major pre-occupation was the prevention of unemployment, the objective now is full employment, and that also not as an aim in itself but as a means towards achieving higher living standards. In the field of social security, the goal is to provide a basic income, comprehensive medical care and effective protection for the life and health of all persons.

Much more significant are the recent operational activities of the ILO. Not only have experts been sent out to help underdeveloped (and even economically developed) countries to raise the standards of living of their peoples,

but regular field offices have been set up in many regions to assist the countries in solving problems connected with their economic development. In this regard, the ILO no longer confines itself to purely labour questions. Its activities now cover the field of co-operation, handicrafts, productivity in industry, vocational training and underemployment. Finally, Regional conferences have been held in Asia, Latin America and the Middle East, and out of these conferences have emerged practical programmes for the development of these particular regions. With a total membership which includes USSR, Federal Germany and Japan, and with more active participation than ever before by Asian and Latin American countries, the ILO has now become a truly universal organisation.

Today, the Technical Assistance programme has become a most important part of the activities of the ILO. Since the end of the last War, this programme has included such new techniques as fellowships, worker-trainee grants, seminars, study tours, supply of equipment and the seconding of experts in special fields to the various underdeveloped countries. Of these, special mention may be made of the manpower programmes covering such diverse subjects as employment service organisation, vocational guidance and training. Manpower Field Offices were established in Asia (Bangalore) in 1949, in Latin America in 1950 and in the Middle East in 1952. In Asia, regional training courses have been conducted at Bangalore covering the organisation of vocational training, apprenticeship and training-within-industry. Survey missions have also been sent, at the request of member Governments, to help them in making an assessment of their needs and priorities. More recently, and partly as a result of this exploratory work, an increasing number of such missions have been engaged in the study of specific questions at the national level. ILO experts are now spending a great deal of their time giving practical advice on specific technical and organisational problems connected with questions of productivity in industry, both in indivi-

dual training centres and industrial establishments and among groups of villagers and craftsmen.

India, a permanent member of the ILO in her own right, by virtue of her position as one of the twelve States of the greater industrial importance, has taken an active part in the work of the organisation and been making use of the assistance offered under the Technical Assistance programme. Her need for rapid industrial development is, however, so great that it is desirable that she should take further advantage of the opportunities offered. It is confidently hoped that, in the years that lie ahead, India will become one of the major recipients of the assistance which is offered by the ILO to various countries of the world.

XVII

THE INDIAN COTTON TEXTILE INDUSTRY

The Indian cotton textile industry happens to be the oldest and most important of all the organised industries in India. The first cotton mill in India was erected at Calcutta in 1818, while the first mill which survives even today had commenced production exactly a hundred years ago—in the year 1854 in Bombay. It is also the largest single industry in the country. India holds the third place among the countries of the world in its capacity for yarn and cloth production based on the number of spindles and looms installed, and the second place on the basis of consumption of raw cotton by the industry. Secondly, it provides livelihood to nearly 10 million handloom weavers, the mill industry alone providing employment to at least 800,000 workers. The total production by the mill industry was over 4,900 million yards of cloth and 1,510 million lbs. of yarn in the year 1953-54, the highest ever recorded so far. These figures have only to be viewed against the targets of 4,700 million yards of cloth and 1,640 million lbs. of yarn, fixed by the Planning Commission to be reached by 1955-56, to make one realise the considerable progress made so far.

This does not mean that the cotton textile industry in India is having an easy and smooth sailing. The problems

facing the industry are many and complex. To understand them properly, one has to remember that there are three main divisions of the industry, *viz.*, (a) the mill industry producing yarn and cloth, (b) the small powerloom factories producing cloth from millmade yarn, and (c) the widely distributed handloom industry producing cloth, both from millmade and handspun yarn. While these three sectors are intended to be complementary to one another, in actual practice, they are often competitive, with the result that any effort to develop one sector may cause—in a free economy—unforeseen and often incalculable harm to one or both of the remaining two sectors.

Let us take the mill industry first. While it is true that the production of millmade cloth has already exceeded the target set by the Planning Commission, the fact remains that actual production is still below the rated capacity. One of the big headaches facing the industry is how to produce more so that the masses can have a larger *per capita* yardage of cloth at a much cheaper price. Unfortunately, the mills cannot produce anything near the rated capacity, because there is not enough cotton to go round: as against an actual requirement of 5 million bales of cotton, only 3.5 million bales are produced inside the country. The remainder has to be imported from abroad at prices which are often uneconomic.

Another headache is the existence of a very large number of uneconomic units. The sizes of the mills vary widely, some of them containing as many as 100,000 spindles, while there are others with less than 10,000. In the case of composite mills also, there are units having less than 200 looms, while others work with more than 2,000. And yet, according to experts, the minimum economic unit is a composite mill having 25,000 spindles and 600 looms!

A third problem is the fact that, by and large, the industry has been working with plant and machinery, most of which is not only old, but completely outmoded. The obvious remedy is replacement of old plant and machinery,

but any attempt at rationalisation is resisted by workers on the ground that it would cause temporary displacement of labour. Although various Working Parties and Technical Committees have recommended from time to time that the process of rehabilitation of plant and equipment and of remodelling some of the existing factories should be undertaken forthwith—as part of a phased programme spread over 10 to 15 years—very little action has been taken to implement this recommendation, one of the important deterrents, besides the attitude of workers, being the absence of sufficient reserves available with the industry commensurate with the requirements of this big task.

This brings us to the most complicated and controversial problem which faces both the Government and the people in this country—the issue of mill industry *vs.* handlooms. It is indeed unfortunate that so much emotion should have been imported into the discussion of this subject, but perhaps it is difficult, in a matter like handlooms, to remain strictly objective and rational. The economist, however, must look at the problem from a strictly economic angle, without of course overlooking the sociological consequences of policies and measures adopted.

Now, to appraise the problem in its proper perspective, one must understand the basic principles of textile technology and the economics of the industry as a whole. Taking technology first, the point to remember is that, even within the organised sector, textile technique is performed on numerous machines which are replicas of one another, rather than on one huge machine, *e.g.*, a steel furnace or a cement kiln. There does not, therefore, exist, in this industry, that type of indivisibility of output which is generally associated with large-scale machines. Secondly, the cotton textile industry is a typical instance of a multi-purpose industry of non-homogeneous products: comparisons of output, whether of yarn or of cloth, can, therefore, be often misleading, if not positively erroneous. These peculiarities would be magnified a hundredfold if we bring, within the

ambit of our analysis, the very large number of handlooms which contribute to a very substantial proportion of the total production of cloth within the country. In 1953, handloom production was estimated at 1,200 million yards of cloth while production by the mill industry was 4,900 million yards. During the second World War, the actual production in the handloom sector had reached a peak figure of 1,700 million yards per annum.

As regards the economics of the industry, certain important points should be borne in mind. Both small powerlooms and handlooms provide large-scale employment in rural areas and enable an increasing number of entrepreneurs in the smaller cities to engage in the weaving industry. In the context of the large increase in population every year and the prevalence of disguised unemployment and under-employment almost all over the country, it would be suicidal to follow a policy which would spell the death of the small powerlooms and handlooms sector. In this connexion, it may be noted that even with the very large quantities of cloth turned out by handlooms, the *per capita* availability of cloth in this country is only 15 yards per annum which is a very small figure indeed. There is room for still greater production and, in this great endeavour, handlooms, with their intrinsic advantages of small scale units, can play as useful a part as the big cotton mills.

It should not also be forgotten that, prior to 1947, national production was always a smaller quantity than national demand, as measured by the net availability of cloth within the country (internal production minus exports plus imports). In other words, the growth of the organised mill industry followed in the wake of an extant demand, denoting a continual displacement of the foreign supplier, rather than a direct, parallel increase in the total internal demand (or, supply). The situation has, however, undergone considerable change during the last few years. Import of foreign cloth is now negligible, while the tempo of exports has been rising steadily. With the likelihood of an

increase in the purchasing power of the people in the not-too-distant future, and the possibility of India being able to export in larger quantities than hitherto, it should be possible for both the organised mill industry and the handlooms to contribute their quota to the general pool of higher production.

This does not mean that the future is free from uncertainties or hurdles. As has been stated earlier, the basic difficulties of the cotton mills, *viz.*, shortage of raw materials, the existence of uneconomic units and lower productivity caused by continued use of old and outmoded machinery are problems which must be faced and tackled boldly. As regards the handloom industry, it will not do to overlook the basic economics of the situation, *viz.*, that this sector can survive and develop only if it produces qualities which are of approved standard and at prices which the consumer can afford. In this connexion, the plea for rationalisation even in the sector of small industries and handicrafts, recently put forward by the Ford Foundation Team of experts, is worthy of consideration.

It is obvious, therefore, that a co-ordinated programme of development of the two sectors is essential in the national interest. This co-ordinated programme will have to embrace production, distribution as well as exports. A co-ordinated programme of production must include, among other things, reservation of spheres of production between the two major sectors, arrangements for the supply of yarn and other raw materials, and research and training facilities for the handloom industry. A similar programme of distribution and exports will involve regulation of the movement of goods and their marketing and, finally, an intelligent export policy designed to meet the actual and potential requirements of foreign markets. It is obvious that these two programmes cannot be implemented without a certain measure of control by Government.

The Report of the Kanungo Committee shows that it has been largely guided by the best interests of the industry

(as also of consumers) from a long-term point of view. At the same time it has not been oblivious of the human aspect of the problem when dealing with the handloom industry. The central thesis of the Report is that there is considerable scope for an increase in production. It is stated that by 1961, the end of the second Five Year Plan, the *per capita* availability of cloth within the country should increase to at least 18 yards. In that year, the population of the Indian Union would increase to 400 millions, which means that the total production of cloth for internal consumption should be increased to 7,200 million yards, as against the present consumption of 5,000 million yards of cloth (including handloom cloth) within the country. Secondly, the Committee desires, and also hopes, that India should be able to maintain, in the coming years, exports of cloth to the extent of 1,000 million yards per annum.

With a view to increasing the production, the Committee has recommended (a) a phased programme for conversion of the 1,200,000 active handlooms in the country into semi-automatic or power looms and (b) replacement of plain looms in the mill industry by automatic ones at the rate of about 5,000 a year. The problem which now faces the country is to find out the sources from which cotton of the requisite quantity (and quality) should be obtained. At present, the intake of indigenous cotton by the mills amounts to about 35 lakh bales and foreign cotton is available to the extent of about 7 lakh bales only. If India wants to increase cloth production by another 2,000 million yards or thereabouts, the supply of raw cotton needed for producing this additional output would be about 18 lakh bales. Even assuming that India will not be exporting any short-staple cotton, will she be able to produce the huge extra quantities required? It should not also be overlooked that the Committee wants the mills to pay particular attention to the export of fine and super-fine cloth: this throws an additional responsibility on growers in India to produce larger quantities of long-staple cotton.

The recommendations made by the Committee, therefore, pose a difficult question which will have to be tackled by the Government almost simultaneously. If this industry "with many variables" is to continue to play its traditional rôle in the planned economic development of the country, those directly and intimately concerned with it should not rest content with a mere re-emphasis of the fundamental verities: policies and programmes must also be re-orientated to meet the new challenge thrown by the Committee.

XVIII

PUBLIC ENTERPRISE IN THE INDUSTRIAL FIELD

In recent years, there has been a spectacular development of public enterprise in India—particularly in the industrial field. Not only has the State taken the lead in bringing within its control and regulation the general field of private enterprise, but it has taken active steps to sponsor new industrial units in the form of public or mixed-ownership corporations. On the one hand, we have individual industrial projects managed by the State; on the other hand, we have such institutions as the National Industrial Development Corporation launched by the Government of India and the West Bengal Development Corporation mooted by the Government of West Bengal, both having the avowed objective of stimulating investment in sectors which are being avoided at present by private enterprise.

The problem which faces India today is that economic development must be speeded up to raise the standard of living. Left to private enterprise, this may take a long time, because not only is there lack of adequate private investment capital, but there is lack of enterprise as well—particularly in fields which do not appear to yield quick profits. Secondly, there are certain areas where public con-

trol over the development of national resources is considered desirable and even essential in the context of a new political and social philosophy.

What exactly are the appropriate fields for public enterprise? As everyone is aware, the classic fields are certain basic utilities, such as the development of railways, road transport, air lines, power and water resources and the conservation and utilisation of forests. But no country in the world of today confines its public enterprise efforts to these sectors only. For various reasons, the control of the State now extends over other areas also. Even in manufacture, where the rôle of the State has been less prominent than in basic utilities, Governments have been compelled to operate a factory, either because an emergency has made it imperative for the State to produce a certain commodity (*e.g.* Government factories producing synthetic rubber in USA and Canada), or because there is no private capital or organisation available (*e.g.* the Government spinning and weaving factory in Burma), or because it is considered desirable that exploitation of certain national resources should be the prerogative of the State (*e.g.* the Sindri Fertilizer factory, the Bharat Electronics factory and the projected Government steel plant at Rourkeila in India). Whatever the motive, the net result has been that the classic fields have been considerably widened and, today, in many countries, there has developed a well-balanced mixed economy based on parallel ownership of industries. The public sector, while being swiftly widened, is attempting to act as complementary to the private sector. The private sector, on the other hand, is moving in directions which are compatible with, as well as conducive to, the larger interests of the State.

Public enterprise in the industrial field is not, however, without its dangers and pitfalls. We need not consider here the full-fledged public ownership and control which are the hall-mark of communist economics, because in those regions the objective is economic development at any cost (even at

the cost of human freedom and of present happiness) and the technique is one of ruthless regimentation. We may, however, derive some moral from the experience of countries like UK where the tradition has been par excellence that of private enterprise. In UK today, the public sector of industry amounts to one-fifth of the entire industrial field, and one person out of four is in public employment. The bold policy adopted by the Labour Government during the five momentous years which followed the end of the second World War led to the nationalisation of the most vital industries and services—those concerned with fuel and power, banking and credit, iron and steel, electricity and gas supply, and transportation. Although the Conservative Government has tried to put the clock back in a few sectors, the essential pattern remains unchanged, and is likely to remain so.

Now, the dangers and pitfalls of nationalised industries are that their administrators are particularly prone to the habits of security, conservatism and procrastination. In UK for instance, the nationalised railway administration has been criticised because it has tried to meet every increase in costs with a rise in price and a reliance on its monopoly to produce the necessary increase in revenue. Again, in industries requiring a high degree of adaptability to market conditions, the dangers of undue centralisation of management, with its concomitants of inelasticity and inflexibility, have been far too apparent in UK in recent years. Nevertheless, it is the considered verdict of most independent observers that the industries in UK which have been nationalised are, on the whole, faring better than they would have done if they had remained under private ownership.

This has been possible because the organisational set-up of public enterprises has undergone a profound change in recent years. The present-day public corporation in UK is far better designed than its predecessors of an earlier generation to attain a correct balance between freedom in day-to-

day management and finance on the one hand, and submission to Parliamentary and Government control in matters of major policy on the other. It appears that both Parliament and the corporations have used their powers with wisdom and moderation, and good use has been made of the organs of consultation within these nationalised undertakings.

The experience of UK has a valuable lesson for India. In UK, the earlier public enterprises were generally organised, financed and controlled in much the same way as any other Government department or bureau. While the maximum degree of control by Parliament was ensured by this method, it did not provide the flexibility essential for effective operations. The result was red tape, inadequate service and insensitivity to consumers' needs. It was soon discovered that the operational and financial requirements of industrial enterprises did not fit in with the normal administrative and financial structure of Government. Gradually, the method of management by Government departments, or even by special Boards or Committees, was replaced by control and management through the medium of public corporations and/or mixed-ownership corporations.

But a considerable section of the criticism in the country has been against the use of the corporate device itself. The very principle of the measure, *viz.*, that there should be set up an agency which can act in its own name rather than in the name of the State, has been attacked. Now, the superiority of a public corporation over a Government department, particularly in the industrial field, lies in its freedom from unsuitable Governmental regulations and controls and its high degree of operating and financial flexibility. Freedom from restrictive statutes with respect to disbursements, contracts, purchases and personnel, permits a corporation to follow standard commercial practice in carrying on its business. Expansion of plants and services can also be financed, without undue delay, by the use of its own revenues or by borrowings.

There is, however, a danger that, in the anxiety to

impart to a public corporation the operating flexibility of private enterprise, power may be placed in the hands of a small, unrepresentative, and often self-perpetuating group. It would be wise to be aware of this danger and so to frame the rules of business that public accountability is not entirely sacrificed at the altar of operating flexibility. It should not be forgotten that public corporations are created to serve a public purpose, and the so-called business decisions made by them may have important political repercussions.

A point which should be borne in mind in this connexion is that public ownership and control are but the means, and not the end, of our social objectives and goals. A nationalised industry may be little more than one in which only the proprietary interest has been transferred from private ownership to the State. The real objective is to have a socialised industry, in which the implications of public ownership and operation have been realised. In other words, in a truly nationalised (*i.e.* socialised) undertaking, there should be (a) full recognition of the consumer's right to the most ample service or supplies at the lowest possible price, (b) full acceptance, both by management and the employees, of the principle of joint consultation, and (c) much better communication than exists at present between the consumers and the public on the one hand and the corporation on the other.

In the West, public enterprise in the industrial field has been accelerated by three distinct philosophies. The first one was the belief, implicit in the writings of Keynes and Hansen, that the capitalistic economic system had failed to transform a maximum of wealth produced into a maximum of social well-being. The second one was the philosophy of Schumpeter that capitalism develops a type of "rationality" which undermines its very foundations. The last and most powerful attack of course came from the Marx-Lenin theory of an inevitable capitalistic breakdown.

These philosophies apply, however, to the mature eco-

nomies of the West only. If India is experimenting today with larger and bolder measures of public enterprise in the industrial field, the motivating force is nether the stagnation thesis of Keynes-Hansen, nor a consciousness of the undermining effects of rationality as pronounced by Schumpeter, nor even the fear of an eventual collapse of capitalism. The underlying force is a desire to bring into existence a socialised economy in which the wealth produced can be transformed into a maximum of social well-being. The setting up of public or mixed-ownership corporations is but a method of achieving this goal and by no means the only method.
