Journal of Indian School of Political Economy

Vol. X, No. 2
April-June 1998

A Journal devoted to the Study of Indian Economy, Polity and Society

INDIAN SCHOOL OF POLITICAL ECONOMY

JOURNAL OF INDIAN SCHOOL OF POLITICAL ECONOMY is devoted to a study of the Indian Economy, Polity and Society. Emphasis is primarily on reviewing developments since Independence with roots in the British administration where relevant. However, papers with a similar focus but not necessarily reviewing developments since Independence will also be considered. When a review is based on statistical data, full statistical base data are presented as far as possible.

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JOURNAL
OF INDIAN SCHOOL
OF POLITICAL ECONOMY

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Journal of Indian School of Political Economy, Pune

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EXCHANGE RATE POLICY

P.B. Kulkarni

Exchange Rate Policy is a somewhat mysterious subject to the uninitiated and currently it is also a subject of topical interest because of growing importance given to the external sector of the economy. To facilitate understanding it would be useful to first elucidate the basic concepts about the exchange rate and what factors determine and affect the exchange rate. After briefly running through the basics, the policy followed since the seventies, i.e., for about the last 25 years is briefly recapitulated. Thereafter, the implications of the policy measures currently supposed to be under consideration of the Government of India and the Reserve Bank of India have been analysed. In the light of the analysis and the recent happenings elsewhere in the world, some issues have been raised for consideration of the policy makers as well as the enlightened public.

I

Exchange Rates and Foreign Exchange Market

An exchange rate is basically the price of a currency in terms of another currency. It is thus almost just like the price of any commodity one buys or sells. For example, just as we say that the price of one litre of some edible oil is Rs 40, an exchange rate of $ 1 = Rs 40 means, the price of one dollar is Rs 40. According to economic laws, the price of any commodity depends upon supply and demand in the ordinary course. The demand for a currency depends upon what can be bought competitively with that currency or, in other words, the demand for a currency depends upon the comparative advantage seen in buying goods and services against that currency. Conversely, the supply of a currency depends upon the demand of the normal users of the currency to sell the currency with the intention of buying another currency to meet their requirements of foreign goods and services. Thus, if residents of India buy U.S. dollar and other foreign currencies more than the amount of Indian rupees foreigners buy to meet their requirements in India at a given exchange rate, the supply of Indian rupees in the foreign exchange market will be more than the demand for Indian rupees by foreigners and the price of the rupee will go down. In an opposite situation, the price of the rupee will go up. This is true, of course, in a free market situation and not where exchange control regime is practised or the government of a country is committed to a fixed exchange rate regime. Over a period, the demand for and supply of a currency depend upon:

A) the visible trade, i.e., merchandise exports and imports, e.g., exports and imports of raw materials, oil, machinery, finished goods, etc.,

B) the invisible trade meaning the receipts and payments on account of services like tourism, transport (ships, air, etc.), banking and insurance, travel for studies, medical treatment, postal services, telephone services, embassy expenses, etc., investment income and miscellaneous private transfers, and

C) capital transfers between home country and a foreign country, both of short term and long term nature, on account of investment and disinvestment, borrowing, etc.

The balance of visible trade (i.e., exports of goods minus imports of goods) is called the *Balance of Trade*; the balance of visible and invisible trade together is called *Current Account Balance* and when one adds net capital transfers to Current Account Balance, we have the *Balance of Payments.* The long term trend or direction of exchange rate of a currency generally depends upon the trend of the country's balance of payments. However, there can be day-to-day fluctuations in different directions depending upon the specific circumstances, i.e., demand and supply on a particular day, interpretation of various types of economic data as published on the day (e.g., money supply, unemployment, inflation, current account balance, etc.), economic policy announcements, political changes, and international conflicts of a serious nature. Many times speculative purchases and sales also play their undue role in distorting day-to-day exchange rate movements.

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A currency is deemed to be getting strong if lesser number of units of the currency are required to obtain a unit of a foreign currency and, conversely, a currency is considered to be weakening if more units of that currency are required to procure a unit of a foreign currency. Thus, if say on January 1, 1998, the dollar rupee exchange rate was Rs 37 and the same is Rs 40 on May 1, 1998, the rupee has weakened, on the other hand, if the rate is Rs 35 on May 1, the rupee can be said to have been strengthened. It is a common feeling that to have a strong national currency is good and a matter of pride. While one can understand the sentiment, it is necessary to appreciate the hard fact that a strong currency encourages imports (because importer's cost in local currency becomes less) and works as an obstacle to exports (because exporters get less amount in local currency) and, thereby, can upset the applecart. A weak currency, by and large, helps to boost exports and discourage imports (presuming the country has exportable surplus) but it also in turn adds to the money supply. (Net foreign exchange inflows in a country *eventually* land with the central bank of the country which releases domestic currency in return to the banking system which, in the ultimate analysis, sells surplus foreign exchange to the central bank). Rise in money supply not backed by availability of goods and services oftentimes results in increase in the rate of inflation. Ideal exchange rate is one which creates equilibrium in the Balance of Payments situation over a medium term and ideal situation is one where, on a day-to-day basis, reasonable steadiness in the exchange rates is maintained and volatility (i.e., value going up and down disproportionately and frequently) is contained. Central banks have to play their role here by intervening in the market at appropriate time and with appropriate dosage of sales/purchases of foreign exchange. In a free market, no central bank can however expect to succeed in reversing the trend as such, unless drastic controls on foreign exchange transactions are imposed. To quote in this context C. Rangarajan, the former Governor of the Reserve Bank of India, 'There can be no rigid formula governing exchange rate determination. Monetary authorities need continually to perform a balancing act between ensuring an exchange rate which will be supportive of exports and the need to contain monetary expansion within reasonable limits' [Rangarajan, 1997, p. 690].

Currencies are bought and sold on spot or forward basis. In the case of spot transactions, delivery is made on the second working day after the contract date while, in the case of forward transactions, the delivery is made on a pre-agreed future date at the rate of exchange agreed to on the date of the contract (i.e., now). In this context, a few observations about the actual level of exchange rates in the market would be in order:

1. In theory, the exchange rates amongst various currencies should depend upon the purchasing power of the concerned currencies. For example, if a basket of goods and services costs $ 50 in U.S.A. and the same costs Rs 1,500 in India, the exchange rate based on purchasing power parity should be $ 1 = Rs 30. However, in practice, rarely does any exchange rate in the world correspond to the purchasing power of the currency.
2. Rarely, any exchange rate depends principally upon the fundamentals of an economy like growth rate, inflation rate, unemployment, etc.
3. There are a number of driving forces such as developments in other markets, like international commodity markets, bullion market, stock market, money market, all of which eventually affect the demand for and supply of foreign exchange and, thereby, the exchange rate movements.
4. Foreign exchange market in the world is the only market which is open for 24 hours (because banks in some country or the other are always open).
5. Arbitrage transactions help to avoid disparities in the rates quoted in various markets at a point of time and thus establish equilibrium (Arbitrage means buying and selling with a view to taking advantage of temporary price differences and market aberrations).

6. In India, banks authorised to deal in foreign exchange have to abide by certain Reserve Bank of India regulations about what type of contracts can be entered into with customers, in which cases forward cover can be extended, how much balances can be kept overseas, etc.

II

Exchange Rate Policy

With the breakdown of the 'Bretton Woods' exchange rate system (under which IMF member countries had to commit to a fixed exchange parity, which could be changed beyond a certain limit only with the approval of the IMF), and subsequent onset of generalised floating of the world's major currencies in the early 1970s, India moved from sterling peg to a basket peg in 1975, (with the same internal exchange control regime). It means the value of the rupee since 1975 came to be fixed on the basis of exchange rate movements of the currencies constituting the basket with specific weights assigned to each of them. Sterling was however retained in the system as the currency of intervention (i.e., the currency bought and sold by the Reserve Bank of India (R.B.I.) at the rates announced by it), designation (i.e., the currency in terms of which the rupee's exchange rate was fixed and announced by R.B.I.) and valuation. Under the system, the Reserve Bank announced daily its buying and selling rates for its intervention currency and the commercial banks based their rates on R.B.I.'s rates (by adding/subtracting a margin depending upon whether the bank is seller/buyer of the currency). As a policy, the Reserve Bank went on gradually lowering the value of the rupee primarily with the intention of boosting exports and discouraging imports. A number of restrictions on making remittances in foreign currencies continued. The system worked more or less satisfactorily with some checks and balances but because of exchange control restrictions (both on imports and invisibles), an unofficial market (in which people could buy and sell foreign exchange on trust and at rates higher than official rates), the so called *Havala* market, continued to stay on. The guiding factor for effecting changes in the exchange rate of the rupee was the index called Real Effective Exchange Rate (REER). An index is first worked out taking into account daily changes in the exchange rate of the rupee *vis-à-vis* specified currencies with specific weights assigned to each of them. It shows whether the rupee has depreciated or appreciated against the basket of currencies and by how much. Such an index is called Nominal Effective Exchange Rate (NEER). For the purpose of inclusion in the index, India's major trading partners and competitors in the international market are considered. There can be more than one NEER of the rupee depending upon the countries included and weights assigned to them. NEER index becomes REER index when price movements in all the concerned countries included in the index and in India are also taken into calculations. Obviously REER index cannot be calculated on a daily basis. The policy has been to see that the Nominal Exchange Rate of the rupee is fixed in such a way that not only is inflation differential neutralised but the rupee shows slight depreciation in terms of REER. The basket system could be aptly described as crawling basket peg because there was a peg to which the rupee was tied but the peg at which the rupee's exchange rate was fixed continued to change gradually. This policy did help promote Indian exports to a great extent although, admittedly, growth in exports depends upon a number of other factors too. The system suffered from certain drawbacks arising from the suboptimality of the currency basket itself, arising out of subjective considerations for choosing currencies, their weights, and also subjective and other factors affecting exchange rate movements of those currencies themselves.

The Indian Exchange Rate System has undergone sweeping changes since June 1991 as a part of the overall economic reforms and liberalisation process set in by the Narsimha Rao Government. On July 1, 1991, the rupee was devalued from around Rs 21.40 to the dollar to Rs 23.25 and on July 3 to almost Rs 26 to the dollar. This massive devaluation presaged a complete shake up. Thereafter, the exchange rate was left to be determined by the market forces. From then till now, with the exception of a few short periods, the experience with the market based regime can be said to be satisfactory. The exchange rate of the rupee is now left to be determined largely by market forces, the intervention currency has been changed from Sterling pound to U.S. dollar and a number of exchange restrictions have been removed. Because of the reduction in exchange controls, the unofficial or *Havala* market transactions have also come down considerably and the difference between the official exchange rate and unofficial exchange rate is very small. In August 1994, Government of India accepted Article - VIII obligations of the International Monetary Fund - meaning that most of the transactions affecting Current Account Balance are now freely permitted. Among the IMF's objectives, one is to facilitate the expansion and balanced growth of international trade. In this context, the IMF seeks to promote and help establish a multilateral system of payments for current transactions between IMF members. The IMF does this in part by encouraging member countries to accept the obligations under Article - VIII, sections 2, 3, and 4 of its Articles of Agreement. By so doing, member countries agree not to impose restrictions on the making of payments and transfers for current international transactions or to engage in discriminatory currency arrangements or multiple currency practices without the approval of the IMF. This is described as a system of current account convertibility. By the middle of 1997, 140 countries (out of about 160 member countries of the IMF) had accepted Article - VIII obligations and India is one of them.

One relevant point for consideration, in the context of determination of exchange rates presently in India, is whether these are fully determined by market forces. The answer is both 'Yes' and 'No'. If the Reserve Bank of India is considered to be a player in the overall foreign exchange (forex) market, the answer is 'Yes', because like other buyers and sellers, R.B.I.'s buying and selling of foreign exchange can be said to constitute demand and supply, affecting the rate. But since, on most of the occasions, its buying or selling of foreign exchange is intended to stabilise the market or to reduce its volatility or to lead it in a direction which in the opinion of R.B.I. is desirable, the demand or supply from R.B.I. is not strictly speaking 'natural', i.e., arising out of current account transactions. But then, there is nothing 'anti-market' about this - central banks all over the world intervene in the forex market, when they think it appropriate or necessary in the national interest. Opinions can differ about the timing and quantum or dose of intervention. Some call RBI's intervention too late and too little. Personally, I do not subscribe to this view fully. Central bank's market intervention is more of an art than a science and considering the limited time period of the last 4-5 years during which R.B.I. is entering the market at its discretion, it has by and large achieved the intended objective. I have not come across any central bank in the world, whose market interventions are just right and fully effective in relation to the intended objective.

In his address delivered at the XI National Assembly of the Forex Association of India in Goa on August 15, 1997, Y.V. Reddy, Deputy Governor of the Reserve Bank of India dwelt on the policy dilemmas in Exchange Rate management. About the objectives and purposes of Exchange Rate Management, he says:

'The main objective of India's exchange rate policy is to ensure that economic fundamentals are reflected in the external value of the rupee. Subject to this predominant objective, the conduct of exchange rate policy is guided by three major purposes. First, to reduce excess volatility in exchange rates, while ensuring that market correction of overvalued or undervalued exchange rate is orderly and calibrated. Second, to help maintain an adequate level of foreign exchange reserves. Third, to help eliminate market constraints with a view to the development of a healthy foreign exchange market.......

The Reserve Bank has been intervening in both the spot and forward markets to prevent undue fluctuations. In the context of large capital flows (inflows as well as outflows) within a short period, it may not be possible to prevent movements in the exchange rate away from the fundamentals. Hence, the management of rate fluctuations becomes passive, i.e., one of preventing undue appreciation in the context of large inflows and providing supply of dollars in the market to prevent sharp depreciation. But, the correction, if any, has to be gradual and not sudden' [Reddy, 1997, Pp. 702-703].

Capital Account Convertibility

After Current Account convertibility, the next logical step is Capital Account Convertibility (CAC), which is a subject of topical interest and controversy these days. CAC means freedom to convert domestic currency into foreign currencies for purposes of capital transactions, viz., investments, loans, etc., and vice versa. Introduction of CAC without any restraint would virtually mean permitting conversion of rupees into any foreign currency and conversion of any foreign currency into rupees at any point of time for any purpose at a rate of exchange determined by the market. The views of experts as well as political parties on this subject are not uniform - while some feel that CAC is the next logical, necessary and healthy step in the process of economic reforms introduced in 1991, some others feel that the introduction of CAC presently is not only untimely but such a step would lead to a catastrophe.

Generally, speaking, the points in favour of CAC are as under:-

A: In the absence of restriction on inflows and outflows of foreign exchange, CAC will result in increased flow of foreign exchange into the country which is essential for economic development.

B. Because of free availability of foreign money, interest rate differentials between India and other rich countries will tend to be narrow, which will benefit Indian trade and industry.

C. A part of foreign exchange earned/owned by Indians, which used to fly out of India through *Havala* route, will reverse its direction. In other words, Indians' money abroad will start flowing back to India.

D. Because of eventual integration with international foreign exchange market, new financial instruments will enter the Indian market and will, thereby, help widening and deepening of our market.

E. With free movement of funds between India and foreign countries, Indian investors will be able to diversify their portfolio internationally so as to reduce risks and earn better.

F. Global financial integration arising out of CAC (with current account convertibility already in place), i.e., free conversion of foreign exchange into rupees and rupees into foreign exchange, is bound to create pressures on internal interest rates, exchange rates, viability of the banking system and businessmen's projections about the future. For success of CAC, certain macro-economic conditions need to be satisfied to safeguard the economy from plunging into instability. These conditions come in the form of fiscal consolidation, lower inflation and an adequately sound financial system. Since considerable internal economic discipline is required to sustain CAC, the likelihood of irresponsible macro-economic policy choices will diminish.

While theoretically one may accept the logic behind the above viewpoints, since there are also contrary arguments and opposite views and also the subject is sensitive, the Reserve Bank of India had in 1997 appointed an expert committee under the Chairmanship of one of its former Deputy Governors, S.S. Tarapore broadly to:

a. indicate preconditions for introduction of CAC;
b. recommend the measures to be taken to achieve full CAC;
c. specify the sequence and time frame in which such measures should be taken; and
d. suggest domestic policy measures and changes in the institutional framework.

The Committee submitted its report on May 30, 1997. It is of the view that there are several benefits of a more open capital account. However, there are certain weaknesses in our economy and, hence, the implementation should be done in a phased manner over a period of three years up to March 2000, and certain preconditions/signposts are essential in the move to CAC. While it is not proposed to go over the detailed recommendations of the Committee, broadly, the Committee conveys that if the following is accomplished, CAC can be introduced by the year 2000.

i) Fiscal deficit of the Central Government should be reduced to 3.5 per cent of GDP (from the existing level of about 6.1 per cent). This should be accompanied by reduction in the states' deficit as also reduction in the quasi-fiscal deficit, i.e., of local bodies. The current practice of repaying Government market loans out of fresh borrowings should be discontinued and, instead, Consolidated Sinking Fund for public debt, mainly out of the proceeds from the disinvestments, should be created. The primary logic of this recommendation is to ensure efficiency of government spending including reduction in wasteful expenditure and more productive use of assets, reduction in the pressure on foreign exchange resources (it has been observed that more the budget deficit, more the drain on foreign exchange resources) and avoiding getting into a debt trap. RBI should not subscribe to primary issues of government borrowing programme.

ii) Inflation rate should be kept at 3 to 5 per cent. For that purpose, a medium term inflation mandate should be approved by Parliament and there should be clear and transparent guidelines on the circumstances under which the mandate should be changed by the Parliament. Mechanism is to be put in place for maintaining an inflation rate not too much out of alignment with inflation rates in industrial countries. The logic of this recommendation is to help stability of REER.

iii) Financial system should be fully strengthened and this would mainly mean:

a) Interest rates should be totally and fully deregulated.

b) 'Weak' banks should be converted into 'narrow' banks meaning their incremental resources should be restricted only to investment in government securities. The idea is to make them concentrate on recoveries and prevent them from adding to non-performing assets. Gross non-performing assets of the banking sector as a percentage of total advances should be brought down to the level of 5 per cent (from the present level of about 14 per cent). This would improve the profitability and risk bearing capacity of the banking system.

c) Average effective Cash Reserve Ratio should be reduced to 3 per cent (from the present level of 10 per cent) so as to reduce the strain on the liquidity of the banking system and have realistic interest rates. Also, it is advisable to have a level playing field for banks, financial institutions and non-banking financial companies.

d) There should be effective supervisory regime, so as to avoid surprise shocks and losses to the system. Supervisory regime needs to be able to pick up warning signals and should take quick, strong and deterrent actions in cases of inadequacies/deviations from norms. Risks faced by the financial sector are much higher in developing countries. Hence tighter norms, in terms of steeper capital requirements, provisioning and income-recognition norms, should be thought of.

e) Comprehensive review of all banking and finance related enactments which have engendered inflexibilities and rigidities in the system should be undertaken.

iv) The RBI should not ordinarily interfere in the foreign exchange market if the exchange rate moves within 5 per cent around the neutral Real Effective Exchange Rate. This REER should be published weekly. The neutral REER (optimum level as prescribed by the RBI or Government) could be changed as warranteed by fundamentals. Also, as a part of Exchange Rate management, it should be ensured to the extent possible that forward exchange markets reflect the interest rate differentials (ordinarily in a free market, funds get invested where interest rates are high, and the forward margins, i.e., the difference between spot and forward rates, are equal to the interest rate difference, so as to neutralise speculative gain).

v) The external debt service ratio (debt service cost as percentage of exports) should be reduced to 20 per cent from the existing level of about 25 per cent and to facilitate this, current receipts to GDP ratio should be increased from the present level of 15 per cent.

vi) The foreign exchange reserves should be at the level of about $ 31 billion. The figure is based on the calculation of the following indicators:

a) not less then 6 months' imports value,

b) not less than 3 months' imports plus 50 per cent of debt service payments plus one month's exports and imports (to take care of lags and leads arising out of uneven outflows and inflows of foreign exchange),

c) incremental short term debt and portfolio stock should be accompanied by equivalent increase in reserves,

d) the net foreign exchange assets to currency ratio should be prescribed by law at not less than 40 per cent (so that the temptation to print currency notes to meet governmental deficit in checkmated).

The Committee has further suggested details of exchange control relaxations on way up to the year 2000. It has also made some other recommendations about government debt policy, debt management, interest rate deregulation, handling of weaker banks, role of financial institutions, operation of spot and forward markets in foreign exchange, limit on external commercial borrowing and foreign investments, eligibility for forward cover, permitting banks and financial institutions to participate in gold market in India and abroad, even deal in gold. It has also recommended that annual stock taking of the progress on various fronts should be done and, if the progress is not as suggested, both the time table and the scope of CAC would have to be altered.

III

So far so good. The Committee has undoubtedly considered various issues to be taken care of before introducing CAC. But when one looks into the practicability in the immediate future, the following main questions make one ponder:

1. Are the assumptions and time frame realistic?
2. Do we honestly expect the banking system in the country to be sound within a short period with the existing constraints on them in a number of respects? Do we have political courage and socio-economic conviction to close down inefficient banks?
3. Is the suggestion to maintain the exchange rate within 5 per cent band of a 'neutral' REER all the time operationally and strategically workable?
4. Do we have internationally comparable forex dealers in adequate number and bank managements reasonably aware of potential risks in the forex business with no holds barred?
5. On what considerations should the level of foreign exchange reserves be determined under CAC conditions?
6. How good is the information system in the Government of India's Ministry of Finance and the Reserve Bank of India to be able to take prompt and corrective actions to avert crisis?
7. What went wrong with 'tiger' economies of the South East Asia, which were being hailed all along by international financial institutions, including the Bretton Woods twins?
8. What is the IMF's approach to full convertibility by developing countries or, in other words, are we under any pressure from the IMF?
9. What is so great and urgent about introducing CAC when a number of other national priorities are not attended to properly and justifiably?

Let us go further into some of the issues.

Fiscal Deficit

Reduction of fiscal deficit to 3.5 percent of GDP is a desirable objective in the ordinary course of economic life for reasons which are wellknown. We have, however, seen over the last 5-6 years the practical difficulties in achieving deficit reduction targets in a vast country like ours and in a democracy of the type we are operating. Further, recession, sluggish economic growth, natural calamities and forced wars or some such unforeseen situations are bound to compel governments to exceed the projected deficit. There is also another important factor. At macro level, fiscal deficit can be reduced by neglecting essential capital expenditure, without reducing wasteful revenue expenditure. Thus, though on paper, the fiscal deficit could be reduced, the manner in which it is being done cannot at all be overlooked. To sacrifice investment at the altar of the goal of deficit reduction will be counter productive. The suggestion that the RBI should totally eschew from participating in primary issues of Government borrowing may not be easy to implement at this stage because, if the market does not respond as expected, and the RBI does not provide ways and means advances beyond the agreed limit, the Government operations may be critically affected. Also, how the RBI will conduct open market operations (i.e., the RBI selling or buying government securities with the intention of withdrawing or putting into circulation money, as a part of monetary policy) will have to be thought of in that case.

Inflation

Same is the case about the rate of inflation. Admittedly, lower inflation is preferable to higher inflation but one's view or outlook should not be regimented. Inflation target cannot be considered in isolation overlooking the target of economic growth. In fact, as a matter of emphasis I would feel that the objective economic growth has to enjoy priority over mandatory inflation target. Also, I wonder whether absence of parliamentary mandate (as recommended by CAC Committee) has been the hurdle before the Reserve Bank in its efforts to keep inflation under control. For our Lok Sabha to prescribe an inflationary target will take a good bit of persuasion of different parties and political bargaining. Faced by conflicting pulls, it would take quite a long time to reach an agreement. Again, as everybody knows, the situation in respect of inflation does not depend entirely upon the central bank of a country. Fiscal policy makes its own contribution one way or the other. Also unforeseen natural and forced calamities do hamper the achievements in this area.

Financial System

Whatever the Committee has recommended appears to have been done from the ivory tower. In this case also, none can question the basic logic and importance of the measures suggested but, considering the mess in which many public sector banks stand and the manner in which they are functioning even 5-6 years after the introduction of economic reforms in the country, absence of political courage to take necessary strict measures, firm hold of the governmental bureaucracy on the system, labour laws and, what have you, it seems to me a formidable task to straighten out the financial system in a short period and keep it in that state for years to come. In addition to originating from exogenous macro-economic shocks, banking problems often stem from deficient bank managements and poor operational control, shortcomings in regulatory and accounting frameworks related to inadequate management control, and distorted incentive schemes. A prompt, comprehensive and coherent approach is necessary and, surely, the time frame in our set up will have to be much longer than envisaged. Reorganising and restructuring of banks is being talked about for the last 25 years. Even the second Narasimham Committee [1998] has not gone into the nitty-gritties of it and has made recommendations of a general nature. Non-performing assets (NPAs) is the biggest problem of the public sector banking industry but no hard decisions are being taken. (Gross NPAs of 15 out of 20 public sector banks exceeded 15 per cent as at the end of March 1997, as reported in Business Standard of June 11, 1998). We are not in a position to take a decision to the effect that a defaulter of any bank will disqualify himself for holding any public office. Have the bank managements been able to sell their agenda to the unions, at least to the minimum extent desired? Do we feel that Cash Reserve Ratio of 3 per cent will be sustainable throughout and it can cease to be an effective instrument of monetary policy? Is a 'comprehensive review of all banking and finance related enactments' possible within a short period? Can we forget the background against which the banks were nationalised and the expectations from them in that context and still proceed towards privatisation?

Although generally speaking 'narrow banking', is understood to mean deployment of incremental deposits in government securities, it is necessary to build up a coherent model-based explanation of narrow banking. A thorough analysis of the costs and benefits of 'narrow' banking is also very much necessary. The point I am making is that in our set-up, the process of reforms is going to be slow, whether we like it or not, and hence the three year target is overoptimistic. I would personally deem it as a great achievement, if we could show the desired progress on the single issue of reduction of NPAs' percentage in 5 years time from now (without, of course, government subsidy).

Exchange Rate

It is agreed that exchange rate policy has to be linked to the Real Effective Exchange Rate of the rupee. Questions, however, do arise as to what is neutral REER? We have heard two Governors of the RBI, announcing two widely different (nominal) exchange rates of the rupee within a span of about 2-3 months as the level rates. Will it be practicable for the R.B.I. to publish the REER of, say, a 36 country index every week or fortnight? Will it be desirable for a central bank to be unreservedly open or fully transparent about the line or direction of its possible actions in exchange rate area? Actions in forex market affect the money market and securities market and vice-versa. The central bank may like to influence the exchange rate movements in a particular direction for a variety of reasons like building up of reserves, controlling money supply, semi-administered prices, forward market regulation or direction or just to meet speculators' attack on its currency. To illustrate, to build up the level of foreign exchange reserves, the Reserve Bank may enter the market and buy foreign exchange by offering a slightly higher rate. If the objective at a point of time is to control money supply, the RBI may sell foreign exchange to the banks at a slightly cheaper rate so that the rupees flow to the R.B.I. At times prices of certain essential commodities like oil, foodgrains, etc., may be linked to the import cost, which in turn depends upon the exchange rate. To keep administered prices under control for a short period, the RBI will have to see that the rupee does not depreciate in the forex market. This can be done by selling foreign currency in the market by the RBI. When speculators play with a currency to bring its value down in the international forex market, as they did to some extent recently in South East Asia the central bank of the country can attempt to meet the challenge by entering the market in a covert manner, at times buying and at times selling foreign exchange, thereby upsetting market guesses.

It is also noticed that at times officials in government ministries, some ministers and others make statements to the press about exchange rate policy which confuse the players and cause indirect damage. A material point that could have been stressed by the CAC committee is that there should be just a single spokesman of the Government of India and the Reserve Bank of India together, who can talk to the public or press about the exchange rate policy (besides, of course, the Finance Minister and the R.B.I. Governor).

Forex Management Skills

Convertibility implies vulnerability of banks to losses because of unexpected movements in exchange rate market. An array of new variables will enter the fray and heighten the uncertainty and volatility. This would happen because of absence of protective umbrella of the RBI, uneven inflows and outflows, and because of change in economic and political scenario creating volatility and speculation by the players in the foreign exchange market at home and abroad. Some such forces were already seen at play in the second half of 1997; for example, differing perceptions of the appropriate level of exchange rate at the top levels in economic administration, statements by the authorities, the political imbroglio arising out of instability of the United Front Government, fresh elections, etc., and developments in the overseas markets, particularly in South East Asia, exerted their force on the rupee's exchange rate. In India, presently risk of further changes in foreign exchange rates can be covered by buying or selling foreign exchange forward, i.e., by contracting today a rate at which the bank dealing in foreign exchange will be prepared to buy or sell foreign exchange at a specified future date. There is no other way and the forward market even for a popular currency like the U.S. dollar exists up to a year only. Forward cover cannot also be obtained for all types of risks, particularly in respect of likely or expected transactions in future (say, like giving a tender with guarantee in foreign exchange). In the developed countries, a number of other products like options, swaps, futures and their derivatives are available. With the introduction of CAC, the logical fallout will be the development of the market for such hedging products. But we are facing problems in this regard because of inadequate skills and experience, absence of rupee term market and various legal and taxation issues. As I see it, operating in a free foreign exchange market is like swimming in a sea where, besides tides and ebbs, sharks and roughness of sorts exist. By and large, most of our forex dealers have just graduated from swimming in a pond to swimming in a river. Many top management members of banks and most of their Board directors are also novices in this area. Till we are satisfied reasonably about our competence, we should be slow in our pace.

Similar is the case of our corporate managements. Most of them have not given hedging or risk management mechanisms the serious attention they deserve. This is obvious from the fact that ahead of August 15, 1997, corporates were sitting on payable exposures amounting to about 6 billion dollars (i.e., they had not obtained forward cover) not expecting that the rupee could suddenly depreciate by almost 10 per cent in two months. They must start learning the ropes and this cannot be done overnight.

Foreign Exchange Reserves Level

As mentioned earlier, the CAC committee has suggested four indicators to determine the desired level of foreign exchange reserves. Here again while one may not quarrel in principle in respect of them, I am inclined to feel, based on our own experience in 1990-91 and the South East Asian experience in the second half of 1997 that the main factor creating vulnerability is the short term debt of the country. (If the level is high and most of the lenders refuse to renew matured loans and demand repayment, a country can face crisis situation if foreign exchange reserves are inadequate). To my mind, therefore, the satisfactory level of forex reserves should be equal to the entire short term external debt including the portfolio stock held by non-residents plus 50 per cent of debt-service payments in the next 12 months plus one month's exports and imports.

Information System

It is imperative in any liberalised economic environment that the managers of the economy know promptly and correctly what is happening and where. We must examine how good we are in this respect. Although there has been a considerable improvement in recent years, my candid assessment based on my 41 years' experience in the world of finance, most of which is in the public sector, is that we are poor in this area both at macro and micro levels and, therefore, we face crisis situations and surprises one after the other. Markets and market operators as well as regulators can function more efficiently, if key information becomes available to them in a timely fashion. An expert team or perhaps sector-wise expert groups should be appointed to recommend minimum necessary coverage, periodicity and timeliness of data, and how to ensure integrity and quality of the data. This area indeed deserves much more attention than given in practice. No need to say that better informed markets and regulators are likely to make better decisions.

South East Asia's Financial Market Crisis

A number of write-ups have appeared in the newspapers and economic journals about the recent South East Asia currency melt-down.

Broadly speaking, the South East Asia's crisis could be traced to its financial excesses as listed below:

1. Banks and corporates resorted to heavy overseas borrowings enjoying low interest, presuming little or no exchange rate risk with their fixed or semi-fixed currencies. When their currencies depreciated heavily and suddenly, they found it difficult to fulfil their obligations because of the increased cost of servicing and redemption;
2. The borrowed funds were to a great extent sunk into an overblown property sector and into a huge over-development of the manufacturing and infra-structural base to maintain the stupendous economic growth rates and grab market share;
3. Imports surged due to their expanding economies and to feeding the bloated manufacturing sector while exports did not pick up as much, leading to widening of the current account deficits, putting pressure on the currencies;
4. Central Monetary Authorities tried to defend their currencies but had to yield to the massive speculative attack which led to the fall in the currencies;
5. Subsequent *de-facto* devaluations led to heavy burden on banks and corporates to service their huge overseas debt, leading to many a bank and corporate failures around the region;
6. Besides, overseas investments which had accumulated in the region over the years of superlative growth fled these economies, pushing the currencies even further;
7. Also, many overseas investors withdrew their portfolio investments leading to sharp falls in the stock markets of the region along with the already afflicted currencies, eroding the much needed wealth of the domestic entities;
8. Beleaguered banks and corporates, due to spate of financial failures in the region, scouted for dollars in order to service their overseas debt burden, further aggravating the problem, leading to a vicious circle of falling currencies and stock markets and increasing bankruptcies; and
9. The information system was unsatisfactory.

To regain confidence of overseas investors, the countries have to do whatever such investors want, whether you like it or not. The IMF is also faced with very little option in such situations, except to bleed the economies a little more, howsoever irrational, to appease the investors and coax them to bring the money back. As Jagdish Bhagwati of the Columbia University said recently in an interview, 'you may have to do something wrong in order to convince the markets that you are doing something right' [Bhagwati, 1997, p. 13].

A lesson for us is to be judicious both with regard to the quality of overseas borrowing and its utilisation. As Deena Khatkhate has said, 'One of the oft-repeated economic doctrines that is harnessed to justify globalisation of the financial markets is that investors would be able to find outlets for their savings where return is the highest, allowing for the exchange rate risks. Globalisation of asset holdings also ensures a sufficient diversification so that the shock in one market for assets does not jeopardise other asset markets, not affected by the shock. This doctrine was thrown to the winds by what was experienced during the Mexican crisis two years ago, and the Thailand and Indonesian crisis at present' [Khatkhate, 1998, p. 17].

IMF's Approach/Attitude towards Capital Account Convertibility

As indicated earlier, the IMF is keen that its members introduce Current Account Convertibility as early as they can. As regards Capital Account Convertibility, although the IMF got its Articles of Agreement amended recently to make CAC mandatory on all member countries, Stanley Fisher, First Deputy Managing Director of the IMF said at a Seminar in Hongkong on September 19, 1997 that although countries have much to gain from liberalisation (particularly borrowing on more favourable terms, enhancement of the efficiency of own financial markets, and more rapid growth with better allocation of savings and investment), there are dangers inherent in premature and disruptive liberalisation. These can be minimised through an orderly adaptation and strengthening of the appropriate policy and institutional infrastructures. He says: 'What is right response to operating in a system that offers major benefits but may penalise mistakes severely and occasionally burden the economy with inappropriate shocks? The prime need is to avoid policies that can cause rapid capital flow reversals and to strengthen the structure of the economy and its policy framework. The importance of pursuing sound macro-economic policies, strengthening the domestic financial system and phasing capital account liberalisation appropriately - which means retaining some capital controls in the transition - is virtually axiomatic now' [Fisher, 1997, p. 322].

It is obvious that we are not under undue IMF pressure for introducing CAC.

IV

Conclusion

One gets an impression that while various prescriptions in the CAC report are by and large unassailable or, in other words, one may not have many 'In Principle' objections to what has been said, the Committee is definitely overoptimistic about some assumptions and unrealistic about the time frame. I do not believe that Tarapore is unaware of the realities and constraints of our situation but still his answers seem to create more questions. Perhaps he wanted to look positive so that the so called 'inevitable' step in development will not be postponed *sine-die.*

The nation has many other more urgent priorities. Many countries have grown without CAC. For example, China has had very high growth rates and so also Japan and Western Europe after the War. In the absence of CAC, we are not starving of foreign capital. Foreign investors will take their decision on the basis of their perception about whether the economy is being run in a smooth, efficient and sound manner and whether there is a reasonable political stability and sound financial system, and not on whether the Indian currency has been officially declared convertible. Convertibility has its uses but it cannot guarantee robust growth. CAC is a symbol of certain amount of penetration of the international market and a certain level of maturity of our financial market. Instead of going after the symbol, we should concentrate on the substance underlying it; it is going to be difficult and time consuming. Some reasonable macro-economic stabilisation is a pre-requisite before we jump on the convertibility band wagon.

In this context, S. Venkitaramanan, former Governor of the RBI said recently: 'CAC offers various challenges to the Reserve Bank of India, the banks, the corporates and the market. While the various signposts that Tarapore has suggested are necessary parts of the process of opening up, they are not sufficient in themselves. There is a danger that they may be treated as sermons on the Mount to be heard and not followed. ----- What is important therefore is (first) to get our players ready for the global market place' [Venkitaramanan, 1997]. Convertibility need not be our overriding priority.

Free deregulated environment warrants rigorous self discipline on a sustained basis, political will and courage. A number of 'musts' have been indicated in the CAC Committee report and to an extent in what I have stated above. I would emphasise particularly the following:

1) Government must regulate foreign investments and capital flows even from non-resident Indians and, particularly, those of a short-term nature to obviate the possibility of default in the event of sudden unforeseen *en-masse* withdrawal.
2) Fiscal deficit target and achievement should be looked at qualitatively also, i.e., which expenditures are axed to reduce the deficit.
3) In the developed countries, exchanging of one currency into another or doing any transaction involving foreign exchange (like issuing travellers cheques/drafts) is as simple as depositing/withdrawing the domestic currency or routine - like domestic banking transactions. In India, even in big cities, very few branches of banks do forex business and there are a number of hassles and there is

tremendous loss of time. Cumbersome procedures to effect foreign exchange transactions should be simplified on a priority basis.

4) Exchange rate management need not be a fully open book. Different officials in the Government and the Reserve Bank should not talk about the Exchange Rate policy in different tongues.
5) Marginal rise in inflation may be preferred to fall in economic growth rate.
6) A time frame of 5 to 10 years should be agreed upon to straighten and strengthen the financial system even by liquidating some inefficient and non-viable institutions and suitably changing the banking and finance related enactments.
7) Corporates and banks must upgrade and diversify forex skills and treasury management skills.
8) Economic system and policy should be more flexible, i.e., more capable of adapting itself quickly to internal and external shocks. (Recent actions of R.B.I. Governor Jalan such as raising bank rate, margin on interest rates on import finance, post-shipment export cost, are reassuring in this respect).
9) Since introduction of CAC means taking on a number of risks and constant monitoring of the economic health of the nation and being ready all the time to reasonably defend the international value of the domestic currency (rude shocks affect business calculations and eventually the economic growth), we need to have some other countries to help us in the event of crisis (by way of selling foreign currencies and buying rupees in the market). This is a widely accepted practice in the area of international economic co-operation. Since virtually there is no rupee float outside India, alliances with central banks of some major trading partner countries should be sought. It might help put currency stabilisation programme in place, in the event of crisis.
10) Building up adequate, efficient, and dependable information system should be high on the agenda; ill effects of weak financial and information system will be greatly magnified by full convertibility.

There is no need or use hustling towards CAC; movement should be at a pace we are comfortable with, taking into account all relevant factors and the environment, in which our country has to function. At regular intervals, in the process, we should monitor relevant information, monitor policies adopted and their actual implementation. The programme can be accelerated or decelerated depending upon the performance *vis-à-vis* the agreed preconditions or signposts, and modifications should be introduced from time to time in the light of the experience gained.

In conclusion, I would say that the issues raised are important in my opinion and there is a need for an open discussion on pros and cons. I suggest that the Reserve Bank should come up formally with a status paper containing unspoken fears, the inarticulate premises as well as background facts, without sticking unfairly to either academically correct or publicly pronounced positions. May be, we might catch significant economic ideas from non-economists.

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CHANGING PATTERNS OF FINANCING EDUCATION

Jandhyala B G Tilak

Faced with a continuing financial crisis for a long time, on the one hand, and a global wave of change in favour of market philosophy, on the other, a series of waves of change are taking place in the field of financing education in the developing countries during the last couple of decades. During the current wave of change, the very role of the state in financing education is being questioned and attempts are being made to mould the systems in favour of a free- market philosophy. The changes (and attempts to change) produce often several kinds of social, economic and cultural conflicts. By describing the changing patterns of financing --from traditional methods and approaches to modern western methods -- in this paper, the conflicts and tensions between tradition and modernity are highlighted. Specifically, the shift from the welfare-state philosophy to a free-market approach and the tensions and conflicts that such a shift creates are the principal focus of the paper. It is argued that the free-market philosophy is potentially very dangerous to the very fabric of societies, affecting the socio-cultural foundation of the societies and cheapening the student-nation/society relationships and family bonds.

> The essence of the current crisis in (higher) education around the world is the twin confrontations of change versus heritage, and of one force for change .. versus another ... [Kerr 1994, p. 51].

INTRODUCTION

The last quarter of the twentieth century has been marked by significant changes in the pattern of financing education, the most dominant change being a steady shift from a centuries' old welfare-state approach to financing based on free market principles. The change has neither been smooth nor complete, in any sense, wherever such a change has been attempted; nor has such a change been necessarily global, though they are now being attempted in many countries -- developing and developed alike. These changes (and attempts to change) often produce several kinds of social, economic and cultural conflicts. Such conflicts also seem to be widespread. This paper is concerned with a few such. By describing the changing patterns of financing -- from traditional methods and approaches to modern western methods -- the conflicts between tradition and modernity are highlighted, some of which are familiarly referred to as debates between egalitarians and liberals.[1] The paper does not aim at presenting an exhaustive discussion of conflicts and tensions in educational development in general; rather it focuses on those tensions which relate to policies specific to financing education. Nor does the paper present a comprehensive discussion of the problems of financing education.[2] A few major issues in the financing of education in the developing countries have been selected and the paper, concentrating on emerging tensions, discusses the changing approaches towards those issues. Specifically, the principal focus of the paper is on the tensions and conflicts inherent in such a shift from a welfare-state philosophy to a free-market approach. The major issues selected are: the trends towards privatisation; the shift from free primary education to student fees in primary education; the shift from low to high fees (and full cost recovery) in higher education; student loans; and the changing roles of community, government and the international aid community in financing education.

Welfare-State versus Free-Market Philosophy

The value of education was recognised in traditional societies perhaps much more than in modern societies. Though no attempts were made to identify and quantify the benefits of education, the value of education was rarely questioned. Education and knowledge were viewed as a great

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This is a revised version of the paper presented in the international conference on *International Partnerships in Education and Development: Tensions Between Economics and Culture*, organised by the Department of International and Comparative Education, Institute of Education, University of London, in May 1995. The comments received from V.N. Kothari, Keith Lewin, Angela Little, P.R. Panchamukhi, Perran Penrose, Rosemary Preston, Abby R. Riddell, N.V. Varghese, Cream Wright and Fred Zindi on an earlier version of the paper are gratefully acknowledged. The usual disclaimers apply.

wealth in itself, besides being a source of increase in wealth.[3] It seems that even the existence of externalities was acknowledged in traditional societies, both in the ancient and modern periods. Accordingly, societies invested resources in education voluntarily and gladly, and many a time without expecting any direct economic return.

Even in modern societies for a long time, say, until the advent of the 1970s, it had been held that there was no need to employ direct methods of cost recovery for financing education. It was held that the benefits of education were vast and widespread and, in the long run, government investments made in education could be recovered by society through the increased productivity of the labour force and through consequent higher tax receipts by the government and, hence, there was no need for any specific measures *directly* to recover the investments made in education. As Mishan [1969] observed, '(higher) education is an investment and will pay for itself; and will increase the earnings of the beneficiary students and the government will recover its costs through consequent higher tax receipts'.[4]

The immediate post-War (Second World War) period in Europe and the post-independence period in developing countries, was dominated by such a welfare state philosophy and a philosophy of social democratic consensus. It was strongly felt that government could do almost everything for everybody. Following John Maynard Keynes, the power of the state was recognised, state planning and intervention were favoured, and an extension of the traditional functions of the state was promoted. Education had been one important sector in which the role of the state had been recognised widely. The importance of public education was highlighted earlier in classical political economy also. As Vaizey [1962, p. 23] observed, 'there is a long and honourable tradition from Adam Smith to Alfred Marshall which assigns to publicly supported education a major role not only in promoting social peace and harmony, and self improvement, but in the process of wealth-creation itself'. Accordingly, a gold standard tradition was established, characterised by state financing of education in full (or nearly in full).

The advent of the 1970s heralded a continuing financial crisis in education [Coombs, 1985]. The crisis was characterised by high rates of inflation, shrinking public budgets for education along with increasing student numbers, declining per student expenditure, extremely inadequate investment in the quality of education, severe distortions in inter- sectoral and intra-sectoral allocation of resources, widening of inter-country and intra-country inequalities in expenditure on education, etc. The socio-economic and political imperatives, along with the eclipse of Keynesianism in the mid-1970s, gradually and reluctantly paved the way for the entry of free market principles and of direct measures of cost recovery in education. The concept of free market used in modern economics until the end of 1970s or early 1980s was probably consistent with an appropriate role of the government to take care of market failures. This was the basis of welfare economics. But the 1980s and 1990s brought about a complete swing of the pendulum in which social democratic values and welfare state concerns were replaced by the free market philosophy that stresses individual economic values and gains. Individual freedom and choice are preferred to social (or public) choice. According to the somewhat extreme form of free market philosophy [*à la* Hayek, 1944], there is no meaning to 'social good' and 'social welfare'; there is no such thing as society or value to society that is inseparable from individual gains. Only individuals are real, and their gains are crucially important and individual freedom is more important than even democratic and egalitarian values. Public good and social justice are viewed as impossible and even as not necessarily desirable. All this may look like an extreme form of 'libertarianism'. But such tendencies seem to be emerging and slowly becoming strong. It is argued increasingly nowadays that it is not the government, but the market that can do everything for everybody. This philosophy entered the education sector as well. Correspondingly, a reduced emphasis on education, more explicitly higher education, by the government is promoted as an economically and educationally efficient proposal and it is recommended that the role of the government should be confined broadly to the formulation of a coherent policy framework [e.g., World Bank, 1994]. The creeping in of a free market philosophy into education, which is much more ingrained in the American psyche, has come as something of a culture shock to most people not only in the developing countries, but also in several European countries, including the UK [Bottery, 1992, p. 83] and has resulted in several kinds of tensions and conflicts.

All modern systems have generally been found to have been suffering for long from a shortage of resources, and during the post-War period, there has been continuous discussion concerning the mobilisation of additional resources for education. But in the earlier years of the post-War period, much of this was focused on public resources -- on diversification of public revenues, on better methods of allocating public resources -- of reallocating resources from less productive sectors to education, and on more efficient methods of public finance (e.g., the principles underlying the grants mechanism, etc.); later, a shift was made from this focus on public to non-governmental sources of funding of public education in the name of diversification of finances -- first laying stress on voluntary community contributions, donations and gifts and, subsequently, on student fees. It is only since the mid 1980s or so that discussion has been explicitly in favour of the private financing of education, or more explicitly privatisation (or marketisation) of education. Thus, attempts at mobilising additional resources were transformed under different garbs: first, mobilisation of additional (public) resources, later mobilisation of non-governmental resources, then diversification of finances, then cost-sharing, cost-shifting, cost recovery, and user charges, and now privatisation. Thus, market and quasi-market principles have been brought to bear in education through, *inter alia,* measures like student fees, loans, and other forms of cost recovery, reflecting in all a steady march from welfare statism to free market hegemony. While even at the beginning of the 1970s privatisation of education appeared 'destined for marginality' [Levy, 1992, Pp. 1,183-95], now it became an important slogan for the 1990s and beyond. As Psacharopoulos [1992, Pp. 114-26] observed, 'the wind of privatisation blowing all over Europe is affecting more than conventional markets for goods and services. Education absorbs considerable resources: hence, it is a natural candidate for removal from the public sector'!

A free market philosophy in financing education supports the following important policy prescriptions, most of which are associated with the World Bank:[5]

(i) the privatisation of education, involving specifically

a) the reduced role of government in higher education,[6] including reduced public expenditure on education; b) a corresponding increase in private initiatives in education; c) introduction of fees in education; and, if it is already introduced, an increase in the fee levels; and d) introduction of student loan programmes to finance (higher) education systems; and

(ii) the reallocation of public resources, including:

e) targeting public subsidies to the economically weaker sections of society, instead of universal subsidization of education; and f) reallocation of public expenditure from higher to primary education. Many of these prescriptions favour a shift of financial responsibilities from the social (institutional) domain to individual (private) domain.[7] They also go against the conventional wisdom of the developing countries and, as a result, conflicts and tensions emerge in policies and practices. In the remainder of the paper some of these policy prescriptions are discussed, contrasting them with the approaches of the developing countries. It may be noted that many developing countries have had to resort to these and similar policy measures, either under pressure from international aid organisations and some of the developed countries, particularly the free market economies, or voluntarily by themselves, i.e., not necessarily under pressure from exogenous forces.

STATE FINANCING OF EDUCATION

In many societies, it is important to note, government is still the most important financier of education. Even in many developed countries, the state necessarily finances education rather liberally, footing most, if not all, of the education bill, at all levels of education, as shown in Table 1.[8] This is felt not only necessary for the development of education, but also as a desirable form of providing education, because markets cannot provide the socially optimum quantities and quality of education, as markets do not capture externalities and state financing is important to capture them. Besides, state financing is also believed to be critically important on equity and efficiency considerations. Hence, even in free market economies, public education systems are relatively dominant and government finances a large proportion of the capital, as well as recurring, costs of public institutions and some part (sometimes a high proportion) of the cost of private institutions.

Table 1. Share of Public and Private Finances in Financing Education (%), 1994

	Primary & Secondary		Higher		All Levels	
(1)	Public (2)	Private (3)	Public (4)	Private (5)	Public (6)	Private (7)
Canada	94.4	5.6	90.8	9.2	93.2	6.8
USA	90.9*	9.1	48.4	51.6	74.5	25.5
Australia	88.7	11.3	74.7	25.3	83.9	16.1
Japan	93.6	6.4	46.4	53.6	77.2	22.8
Korea	75.2	24.8	16.0	84.0	59.4	40.6
Denmark	97.9	2.1	99.5	0.5	94.0	6.0
France	92.6	7.4	83.4	16.6	91.3	8.7
Germany	75.7	24.3	90.4	9.6	77.7	22.3
Netherlands	96.4	3.6	98.0	2.0	97.0	3.0
Portugal	100.0	0.0	100.0	0.0	100.0	0.0
Spain	87.8	12.2	78.1	21.9	85.4	14.6
Sweden	99.8	0.2	93.1	6.9	98.2	1.8
UK	..	..	100.0	0.0	..	..

Notes: * 1992; .. not available.
Source: OECD, 1997, p. 77.

But the policy prescriptions coming from the international aid organisations to developing countries seem to be exactly the opposite, creating serious tensions between those who prescribe policies and those who implement them.[9] Hence, the developing countries have a reason to suspect the intentions of the free market economies and the international aid organisations and to strongly argue that, as 'higher education determines (a country's) economic and technological progress, .. Government funding must continue to be an essential and mandatory requirement for support to higher education' [UGC, 1993, p. 18 and p. 107].

Philanthropy versus Profit

Private education was the norm in most traditional societies for a long time. State found it important that it should finance education, as the benefits of education are immense. Accordingly, in addition to the institutions run by the state, the private educational institutions, opened in many developing countries in the 1950s and 1960s, received state support but private contributions were also significant. Private contributions reflected some genuine educational concerns of the individuals or organisations involved. But state-supported private institutions established in the last quarter of the present century, for example in India, are of a different kind. Private contributions are insignificant in these institutions. Through corrupt and questionable practices, state funds have been diverted to private pockets. Education has become a business yielding good pay-offs, with no initial investments at all.

There is another important shift taking place with regard to the nature of the role of the private sector. Gifts and voluntary donations to public education system had been a very important feature not only in the ancient and medieval periods, but also in the post-War period, particularly in the period immediately after independence in the developing countries. Such private contributions in cash and kind were indeed substantial and, in return, the private donors did not expect to receive any particular benefit. The incentives used to be confined largely to naming buildings in the name of the donors, besides the social status and influence in decision-making in the given educational institution. These contributions were associated with somewhat genuine concerns for educational development, philanthropy and charity. Slowly, such contributions withered away; and the private donors in the 1980s and 1990s, instead, began opting to open their own private institutions, as philanthropic, charitable and educational considerations gave way to a philosophy of greed and the profit motive, associated with a market approach to development. When public institutions have to attract private contributions, economic incentives such as 100-125 per cent tax concessions were to be offered. Still economic gains from opening private institutions seem to be more attractive than the tax concessions on private donations to public institutions.

It may be noted that while traditionally 'profit' was not an acceptable concept in education, in the modern period the private institutions have been accorded recognition by the state as 'profit-seeking' and 'non-profit-seeking' educational institutions. The market approach has contributed to the legitimisation of profit-making in education and, accordingly, to the emergence of the new breed of state-recognised private institutions seeking profit. Many such private educational institutions have been found to suffer from several maladies: (a) they run for profit with little consideration for national manpower needs; (b) since profit is allowed, they charge several times the cost of provision of education as fees; (c) they contribute to the massive erosion of quality and standards in higher education; (d) they perpetuate social and economic inequalities in the system to such a degree that no welfare state can afford the long-term cost; and above all, (e) they contribute to distortions in the allocation of public resources in education [Tilak, 1991, Pp. 227-39; 1992a, Pp. 129-36; 1994, Pp. 348-50]. Even if private institutions are relatively small in number, compared to public institutions, the adverse effects of private institutions on socio-economic equity are found to be so high that the positive effects of public schools cannot offset the ill effects of private schooling [Dasgupta, 1979]. Despite an awareness of all these factors, private institutions, particularly profit making educational institutions have become the order of the day, compared to the situation in which profit was not allowed to enter the arena of education. This is partly due to the policies being adopted by the governments on their own voluntarily or out of compulsion, that favour the growth of self-financing educational institutions. Accordingly, while in the past those individuals who opened private educational institutions had been respected and accorded -- quite rightly -- higher social status, now such individuals are looked down upon as dishonest, greedy businessmen.

Little research on public and private schools has concentrated on financial aspects, as particularly in the developing countries, reliable data on financial aspects are hard to get from private institutions. On the other hand, it has been highlighted in quite a few studies [e.g., Jimenez and Lockheed, 1995; Kingdon, 1994] that private schools are more 'cost-efficient' as they run at lower unit costs than public schools. But the low unit costs in private schools compared to public (government) schools do not necessarily reflect cost-efficiency; nor do higher costs in public schools reflect higher quality. While the latter may reflect inefficient use of resources, the former represents in many cases, the underlying undesirable practices adopted by the private schools in developing countries and, in any event, efficiency of private schools has remained unproven, beyond doubt.

Free Primary Education versus Fees in Primary Education

Much of the discussion concerning cost recovery in education was confined to higher education until the end of the 1970s and even during the early 1980s. Viewing primary education as a pure public good and/or respecting the spirit of the national constitutional provisions and the declarations of the United Nations, Unesco, etc., it was exempted from such discussions, implying therefore that the state should fully finance primary education. This view still prevails in certain corners. But of late, even primary education is not spared from such discussions and from corresponding policy measures favouring the introduction of cost recovery measures.

Interestingly, while the earlier national and international declarations and conventions of the rights of children assured *free* and compulsory education for all, the term 'free' has begun to disappear of late in such declarations.[10] Organisations like the World Bank [1986] favoured the introduction of fees in primary education [Birdsall, 1983a, 1983b; Thobani, 1983] and, subsequently, simultaneously opposed and supported the same policy later. For example, the World Bank [1986, p. 23] observed that 'in general, increased private financing at the primary level is not recommended since it might interfere with universal coverage - a socially desirable goal'; but argued that it 'could increase efficiency within schools' (p. 23) and 'improve the future distribution of income' (p. 24); and finally approved fee in primary education in several countries. But when such moves were criticised [e.g., Klees, 1984, Pp. 424-40], the World Bank subsequently stopped 'insisting' on introduction of fees in primary education. It should be noted that the Bank has only stopped insisting; but it does favour fees in primary education. For instance, the World Bank [1995, p. 132] stated: 'Even at primary level, the charging of fees need not be incompatible with the principle of free primary education, so long as these fees are regulated'.[11]

In present circumstances when market principles tend to become dominant, though the introduction of fees in primary schools is not strongly advocated, nor is it discouraged seriously. This confusion in policy has been reflected in frequent measures of introduction-abolition-reintroduction of fees by governments in developing countries[12] and international organisations encouraging mushrooming of high fee-charging private schools in primary education mostly in (but not necessarily confined to) urban areas, on the one hand, and the introduction of various kinds of small levels of non-tuition (sometimes even tuition) fees in public schools, on the other.[13]

In summary, the philosophy of free primary education is gradually being bidden 'good-bye'. This is against the public good nature of education and is against the conventional wisdom of many nations, reflected in their constitutions and similar other well- intended declarations. This unfortunate trend is occurring almost without notice.

COST RECOVERY IN HIGHER EDUCATION

The neo-liberals have been bent on arguing for 'greater private financing' of education in general, and of higher education in particular. In this context, reforms of student fees have been suggested as an important measure, along with student loans for needy students. The World Bank has been in the forefront, strongly arguing in favour of increase in fees in higher education in developing countries. As Jones [1992, p. 249] observed, fewer and fewer Bank loans by the end of the 1980s were free of the obligations imposed by loan conditionalities to promote privatisation and expansion of user charges in education, particularly higher education.

A general impression has been created first that higher education in developing countries is provided (relatively) free and that there is abundant scope for increases in fees. Secondly, increases in fees are also suggested on the premise that higher education has been overexpanded in developing countries and that these economies produce more manpower than they require. Many policy suggestions are based on these and similar misconceptions. But both premises lack sufficient empirical support.

First, it must be noted that fees (tuition and other fees) as a proportion of the recurrent costs of higher education in developing countries like India are reasonably high, 15- 20 per cent. This is much a higher percentage than the corresponding proportion in many developing and developed countries of the world (Table 2). Even in countries like the USA, tuition fees meet only 15 per cent of total recurrent expenditure in public institutions. Only in South Korea and Chile, is the proportion much higher. The corresponding figures are higher in poor countries like Vietnam than in relatively developed countries like New Zealand, Spain, France and Singapore [World Bank, 1994].

Table 2. Share of Fees in Costs of Higher Education in Selected Countries (per cent)

Country (1)	Year* (2)	Share (3)	Country (4)	Year (5)	Share (6)
Public/Predominantly Public					
*Developing Countries**			*Developed Countries*		
Sri Lanka		..	Norway	1987	0.0
Tanzania		..	Australia	1987	2.1
Bolivia		1.0	France	1975	2.9
Pakistan		2.1		1984	4.7
Venezuela	1986	3.8	Germany	1986	0.0
Nepal	1986-87	4.4	Canada	mid '80s	12.0
PNG	1988-89	4.4-9.0	Netherlands	1985	12.0
Brazil		5.0	Spain	mid '80s	20.0
Malaysia		5.8	Japan	1970	2.0
				1987	8.8
Thailand		6.9	UK		
Taiwan	Late'80s	7.0	Universities	1970-71	12.6
				1988-89	6.4
			Polytechnics	1982-83	15.0
Pakistan	1987-88			1987-88	14.0
Colleges		7.4	Soviet Union	early '80s	0.0
Univs. (Gen)		1.9	Hong Kong	1988-89	6.5-12.1
Univs.(Tech.)		1.3	USA	1969-70	15.1
Costa Rica		8.0		1984-85	14.5
Colombia	1987	9.6			
			Private		
Guatemala		10.0	*Developing Countries*		
China	1993**	>10.0	Taiwan	Late'80s	50.0
Philippines	1985	10.9	Colombia	1989	81.0
Nigeria		12.4	South Korea	1985	82.3
Indonesia		13.0			
India	1984-85	15.0	Venezuela	1986	83.0
Turkey		15.0	Philippines	1977	85.0
Vietnam	1993**	>20.0	Chile	1990	95.0
Jordan	1993**	>30.0	*Developed Countries*		
Chile	1990	38.5	USA	1969-70	38.6
South Korea	1985	49.6		1984-85	38.7
			Japan	1971	75.8
				1985	65.8

Notes: .. Nil or Negligible; * around 1980, unless otherwise mentioned; PNG = Papua and New Guinea; Univs. = Universities.
** The year is inferred.
Sources: Taiwan: Woo [1991, Pp. 1,029-44]; World Bank [1997] for China, Vietnam and Jordan; others: Tilak [1997a, Pp. 63-89].

In the context of these policies, it is also necessary to note that the proportion of student or household expenditure on higher education is much higher in developing countries like India than in countries like the USA [Tilak, 1993, Pp. 7-35]. Household costs (exclusive of opportunity costs) on higher education as a proportion of GNP per capita are much higher in developing countries than in developed countries. For example, such proportions are 450 per cent in Kenya, 337 per cent in Honduras, 203 per cent in Colombia, 175 per cent in Indonesia, and 110 per cent in Costa Rica; in contrast, the corresponding figures are 24 per cent in the UK, 30 per cent in Ontario, 34 per cent in the USA and 38 per cent in France [Ziderman and Albrecht, 1995, p. 47]. Further, given the standards of living of the population on the one hand, and more importantly, given the absence of any effective student aid programmes on the other, any measure to increase fees substantially and to reduce public subsidies for higher education will produce a brutal impact on the disadvantaged students. Thus, it is necessary to note that the scope to mobilize 'greater share' from students does not exist.

Table 3. Gross Enrolment Ratios in Higher Education in Selected Developed and Developing Countries (per cent)

Country (1)	Year (2)	Ratio (3)	Country (4)	Year (5)	Ratio (6)
Developed Countries	1995	51.0	*Developing Countries*	1995	8.9
Canada	1993	102.9@	*Asia*	1995	9.7
USA	1994	81.1	South Korea	1995	52.0
Australia	1995	71.7	Philippines	1994	27.4
Finland	1994	66.9			
New Zealand	1995	58.2	Thailand	1995	20.1
Norway	1994	54.5	Indonesia	1994	11.1
France	1993	49.6	Malaysia	1994	10.6
Netherlands	1993	48.9	India	1995	6.4
United Kingdom	1994	48.3	China	1995	5.3
Spain	1994	46.1	Sri Lanka	1995	5.1
Denmark	1994	45.0	Bangladesh	1990	4.4
Austria	1994	44.8	Pakistan	1991	3.0
Germany	1994	42.7	*Africa*	1995	5.6
Sweden	1994	42.5	Nigeria	1993	4.1
Italy	1994	40.6	Zambia	1994	2.5
Japan	1994	40.3	Kenya	1990	1.6
Belgium	1995	39.4	Ghana	1990	1.4
Bulgaria	1995	39.4	Tanzania	1995	0.5
Singapore	1995	33.7			
			*Latin America**	1995	17.3
Switzerland	1994	31.8	Mexico	1991	14.3
Hong Kong	1993	21.9	Columbia	1995	17.2
			Brazil	1994	11.3

Notes: * Latin America and the Caribbean; The regional average for Asia includes advanced countries like Japan and Hong Kong. @ Gross enrolment ratio can be marginally higher than 100.
Source: Unesco, 1997.

Secondly, despite seemingly high rates of growth of higher education systems in developing countries, a very small proportion of the relevant age-group population is enrolled in higher educational institutions in developing countries, compared to above 70 per cent in the USA and nearly 100 per cent in Canada, as shown in Table 3. With inadequate higher educated manpower, it is being realised increasingly by developing countries that they cannot attain high levels of economic growth and that they cannot reap the gains of globalisation policies. Economic miracles have been produced in some developing countries (e.g., in East Asia), mainly due to high rates of growth of their higher educational systems.

Significant increases in fees in (higher) education will produce serious tensions at two levels, apart from general student protests and associated political unrest. With steep increases in fee levels and reduced state subsidies for higher education, the demand for higher education might fall and, in the medium to long run, developing countries will have less and less qualified, educated manpower, producing serious bottlenecks for development. As a result, developing countries have to rely on manpower from the developed countries, recruited at higher wages/salaries -- a phenomenon confronted by several developing countries in Sub-Saharan Africa and Asian countries, like Cambodia and Vietnam. This has produced unavoidable economic as well as cultural tensions between the developing and developed countries.

The second kind of tension arises within the countries between the rich and the poor. The steep increase in fees as suggested by the advocates of a free market philosophy pushes poor people out of higher education, thus making higher education an increasingly, pro-rich bastion, producing severe socio-economic inequalities within the society and conflicts between the rich and the poor. As against universal subsidisation, selective subsidisation policies, i.e., targeting subsidies, have a strong appeal; but they are necessarily inefficient and divisive, and also contribute to such class conflicts.[14]

Parents versus Children: Who Should Pay? The Loans

Another important measure that is being suggested as an effective solution to the problems of financing higher education refers to student loans, despite the low rates of recovery and the high costs of default and administration associated with them [World Bank, 1994; Ziderman and Albrecht, 1995]. Currently, loan programmes are in vogue in a large number of countries. Proposals on loans are also based inherently on the market principle that those who benefit must pay. In this context, parents and students are viewed as two separate units, the students being the direct beneficiaries of education and hence, according to the benefit principle, it is the students, not the parents, who should pay for education. Since the students are generally not earners, they are given an option to take out loans for their education and, only when they become earners, they would be required to repay such loans.

Student loans thus transfer the responsibility of funding education from the parents to the children, which might affect the relationships between children and parents. Probably for the same reason, in quite a few countries, it is (or it used to be) mandatory that parents necessarily finance the education of their children [see Johnstone, 1989, Pp. 24-44]. But now in many developed countries children after the age of 14 years are made to finance their own education through on-the-campus work on the one hand and loans, on the other. The attempt to free parents from the financial responsibilities for their children's education is indeed an alien feature, if not a great cultural shock, to many traditional societies in Asia.

Then there are two additional culture-specific aspects relating to student loans in practice. First, unlike in the American and, to some extent, the European societies, loans are unwelcome from a psychological point of view in many traditional societies. Particularly, traditional Asian societies were averse to the very idea of living on loans, or education with the help of loans, as such a way of living is not respectfully treated, particularly compared to the American way of life, in which the number of loans one takes out and the individual's corresponding credit-worthiness are generally treated favourably as an important indicator of higher socio-economic status.[15]

Secondly, fears that student loans will work as a 'negative dowry' and, accordingly, will have serious adverse effects on the enrolment of girls in higher education, are strong not only in the UK [Robbins Committee, 1963, p. 211] but also in many other developed and developing countries, like India, where dowry is an important social phenomenon. In those traditional societies in which dowry is not an important social phenomenon, but the husband's obligations are an accepted norm, the problem becomes equally serious.

Further, major reforms in student loan programmes in the developing countries are found to be difficult to carry out. For example, if the responsibility of administering the loans is given to commercial banks instead of educational institutions, as per the recent reforms in India, the administration of loans and the recovery might be expected to become relatively more efficient in such a market framework, but this might be at the cost of educational and social considerations. The banking institutions would be willing to give loans not necessarily to the economically weaker and educationally deserving students, but to economically better- off students, as the recovery of the loan would become the most important consideration.

In summary, student loans, which are inherently based on a free market philosophy, are not necessarily culture-free. The differences in culture explain, though only in part, the varying degrees of effectiveness of such programmes. On the whole, no countries are found where the loan programme works most efficiently, with one hundred or nearly one hundred percent recovery and with no serious adverse effects on demand for higher education.

COMMUNITY FINANCING, GOVERNMENT FINANCING AND INTERNATIONAL AID

In many traditional societies education was supported by voluntary community contributions for long periods. For instance, for several centuries until the modern formal education system was introduced in India, communities voluntarily used to provide alms and other necessities to teachers and students. Endowments and donations were a marked characteristic of the ancient period in India. Even after a modern education system was introduced, communities used to contribute voluntarily towards the construction of school buildings, either in terms of labour or in terms of other material, and/or even in monetary terms. One-fifth to one-fourth of total expenditure on education in India in the late nineteenth century was financed out of community contributions [Misra, 1962]. Much of the expansion of primary education in Africa owes to local African communities [Foster, 1989, Pp. 104-10]. The *Harambee* movement in Kenya [Hill, 1991] is one important example of local efforts at educational development. It is particularly important to note that, as shown in Table 4, whenever the government did not take interest in education, say during the British rule in India, community contributions to education were substantial.[16]

But once the government assumed responsibility for providing education in the modern system, say, for example by the independent government in India after 1946-47, slowly, community contributions began to dwindle and receded into the background. But what is worrying is, when government funds become scarce again, community contributions might not be forthcoming in adequate quantities. As a result, the education system suffers with inadequate government funding and dwindling community contributions.

Similarly as international aid organisations - multilateral and bilateral - entered the education scene in the developing countries, international aid in several countries replaced governmental support to education rather than supplementing government resources [Tilak, 1990, Pp. 470-86]. This was partly due to explicit conditionalities attached to loans, such as those of the stabilisation and structural adjustment loans provided by the World Bank and the International Monetary Fund, that required the governments to reduce their expenditures, among various other factors [Tilak, 1992b, Pp. 407-22].

Once external aid for education in a given country ceases, the education system becomes worse off, as the role of communities has already been minimised; and the role of the government in funding education has been reduced. The situation is further aggravated when foreign aid projects are not sustainable, once aid ceases.

Thus, on the whole, it is possible that in the long run those countries, that have depended upon external assistance for education, might actually be spending less on education than those countries that relied upon their own resources [see Ilon, 1994, Pp. 95-108].

Table 4. Government Grants and Community Contributions to Education in India

	Government		Community	
(1)	Rs m (2)	% (3)	Rs m (4)	% (5)
1870-71	6.57	70.6	0.25	2.7
1881-82	7.29	39.2	3.76	20.2
1891-92	8.13	28.8	6.05	19.8
1901-02	10.28	25.6	9.78	24.3
1911-12	26.96	34.3	16.16	20.5
1921-22	90.23	49.1	30.78	16.7
1931-32	124.60	45.8	41.17	15.2
1941-42	135.17	43.8	42.64	13.8
1946-47	259.59	45.0	80.78	14.0
1950-51	652.68	57.1	132.89	11.6
1960-61	2,340.91	68.0	287.71	8.3
1970-71	8,459.50	75.6	653.90	5.9
1980-81	30,772.39	81.7	1,516.93	5.4
1989-90*	78,657.02	83.5	2,860.38	3.0
1990-91*	..	87.9	..	2.4
1991-92*	..	86.4	..	2.7

Notes: Other sources are not included here. Community contributions include donations, endowments and 'other' sources.
* only school education.
Sources: Misra 1962, Pp. 458-59; Tilak 1995a; Ministry of Human Resource Development 1993, 1994, 1995; Ministry of Finance, 1998.

Following the classification of countries made by Kakwani et al. [1990], selected statistics are presented in Table 5 on a few *intensely adjusting*[17] (referred here to simply as adjusting countries) and *non-adjusting*[18] countries for comparison over a period covering about three decades since

Table 5: Public Expenditure on Education in GNP in Adjusting and Non-Adjusting Countries (per cent)

(1)	1960 (2)	1965 (3)	1970 (4)	1975 (5)	1980 (6)	1985 (7)	1990 (8)	1995* (9)
Non-Adjusting Countries								
India**	2.3	2.6	2.8	2.9	2.8	3.4	3.9	3.5
Malaysia	..	..	4.4	6.3	6.0	6.6	5.5	5.3
Peru	2.7	..	3.4	3.5	3.1	2.9	..	3.8
Egypt	5.2	4.6	4.8	5.0	5.7	6.3	4.9	5.6
Botswana	..	4.4	5.2	7.2	7.8b	7.7	7.6	9.6
Adjusting Countries								
Ghana	3.5	4.1	4.3	5.9	3.1	2.6	3.1	3.3
Nigeria	2.0	2.3	..	4.3a	6.1c	1.2	0.8	1.3d
South Korea	4.9	1.8	3.6	2.2	3.7	4.5	3.7	3.7
Philippines	2.6	2.6	2.6	1.9	1.7	1.4	3.0	2.2

Notes: a 1976; b 1979; c 1981; d 1993.
* most recent estimate available in 1997.
** India became an adjusting country since 1990.
Source: Unesco (various years).

1960. In the non-adjusting countries, impressive growth or at least stability can be seen in terms of the share of GNP allocated to education, while the adjusting countries are characterised by drastic fluctuations and overall deterioration in the same. For example, Ghana and South Korea, two adjusting countries, spent a much smaller share of their GNP on education in 1980 and later than in 1960, while in India, Malaysia, Peru, and rather all the non-adjusting countries in Table 5, there had been a reasonable and steady growth.[19]

This leads one to doubt the effectiveness of aid: does aid contribute to sustainable educational development or does it contribute to an increase in indebtedness and donor dependency? The situation has become particularly grave, as international aid has not solved important and politically very salient educational objectives of developing countries [Weiler, 1984, Pp. 123-56; Verspoor, 1990, Pp. 103-12]. The business concerns of the international aid community seem to conflict with the educational objectives of the developing countries.

CONCLUSIONS

Faced with continuing prolonged financial crisis on the one hand, and a global trend toward a free-market philosophy on the other, there has been a series of waves of change occurring in financing education in the developing countries during the last couple of decades. Traditional approaches have given in, rather reluctantly, to modern approaches in a large number of countries. Many countries seem to be unwillingly becoming reconciled with the transformation of traditional approaches into free market-economy-oriented, modern approaches. During the first wave of change, the need for improvement in the efficiency of allocation of public resources was strongly felt. During the second wave of change, the focus has shifted to the mobilisation of additional resources from non-governmental sources, and to a search for methods of supplementing governmental finances in funding education. During the current wave of change, the tendency to refuse to acknowledge the existence of externalities in education [e.g., Arrow, 1993, Pp. 5-12],[20] and attempts to prove that education is not a public good, and that it can be treated as a private good (or as a 'publicly provided, private good'), are on the increase. The growing liberalism and free market philosophy contribute to the adoption of business and even money-management approaches to education, which are necessarily dishonest and oblivious of social democratic concerns [see Bottery, 1992; see also Marginson, 1993]. Market approach to education is also gaining currency in the context of globalisation and the role of education therein [Riddell, 1996, Pp. 1,357-372]. The free market philosophy tends to become so dominant, that the very role of the state in financing education is being questioned, and theories are being written and rewritten in support of cost-recovery in education. Attempts are also being made to shift from partial cost-recovery to full cost- recovery in education. This current wave is one of the strongest ones, creating serious tensions between the status-quo and change, threatening the very nature of education.

The free market philosophy, i.e., the benefit principle -- those who benefit must pay, and especially the very notion that students should be asked to pay in full the costs of their education -- is potentially very dangerous to the very fabric of society. If students pay the full costs of their education, the relationship between students and educational institutions, and between students and society at large is affected. State subsidized education inherently inculcates certain values, most important among them being respect for the nation-state, gratefulness, and a feeling of responsibility to society. This feeling of obligation to the country is extremely valuable. In return, students, in large numbers, are willing to participate in national development process in a variety of ways. They might be willing (a) to render national service,[21] and (b) to stay within the country, accepting wages/salaries lower than those they can obtain elsewhere, etc. For the students whose education is subsidised by the state, their very approach to society and its problems is different from those who have had to pay the full cost-price of their education. The values inculcated by publicly financed and provided education system and the contributions of the products of such a system to society cannot be quantified, nor can they be expressed in monetary terms, they are, nonetheless, extremely valuable for the sustenance of society. A consumer who pays a shopkeeper the full cost of a normal good or service will not have the same relationships with the shopkeeper, as one who was allowed a subsidised price on compassionate grounds. If parents expect children to pay in full for what they give to the children, or if through the loan programmes parents abdicate their responsibilities of financing their children's education, there will not be any family relationships and the very institution of the family is rooted out, as seems to be happening in several developed, free-market economies, where market values determine human behaviour not only in drawing rooms, but also in kitchens and bedrooms, and the quality of family relationships is cheapened.[22] After trading-off the social, ethical and moral values for quick economic gains, by adopting business and even money-management approaches, we might realise the value of the 'paradise lost' and then begin to re-emphasise values and ethics in education, and introduce such courses in our curricula. Thus, neo-liberal arguments define social institutions, like schools, strictly in market terms and undermine social values, social institutions and relationships such as those in the family and between the citizen and the society. While during the first two waves of change, there appeared to be existing some scope for a convergence between tradition and modernity, such scope is being reduced during the present wave of change, and the free market philosophy -- a rather strong, if not an extreme form of free market philosophy -- seems to be dominating the whole approach to financing education, with all its ill effects. These trends are strong in some countries and in some countries are still in the offing. It is feared that gradually they may become dominant.

NOTES

1. Some [e.g., Colclough, 1991, Pp. 197-213] use the respective terms structuralists and neo-liberals; some others might like to refer to them as conservatives and liberals or moderns. See also Colclough [1996].

2. For a recent, extensive discussion on the financing of, and various cost-recovery approaches to education, see, among others, Tilak [1997a, Pp. 63-89].

3. E.g., see Misra [1967] and Weizheng [1993, Pp. 3-22] on ancient views on education in India and China, respectively.

4. Even at the beginning of the twentieth century, it was argued in the Imperial Legislative Council of India that 'the money spent now (on education) will be well spent and is sure to bring back a larger return to the treasury by the general prosperity of the people' [Desai, 1953, p. 77].

5. See *inter alia*, World Bank [1986, 1988, 1994], Psacharopoulos and Woodhall [1985], Jimenez [1989], Mingat and Tan [1986, Pp. 273-86] and Psacharopoulos [1990, Pp. 157-62].

6. As we show later, the argument is not confined to higher education. It is being slowly extended to primary education as well.

7. See Majumadar [1983] for a discussion of the relationships between investments in the two domains.

8. See also OECD [1990] that gives estimates of share of state finances in the income of higher education institutions. The figures suggest the same that state finances a very large part of higher education.

9. The policy prescriptions of the World Bank [1988] on reducing government expenditure on higher education in Sub-Saharan African countries produced serious tensions between the World Bank and many African countries. For some mild accounts of these tensions, see the 'Symposium' in the *Comparative Education Review* [February, 1989, Pp. 93-133]. See also Serpell [1993, p. 257]. Similarly, Tilak [1996, Pp. 355-66] presents an account of the differences between the policy prescriptions of the World Bank [1994] and Indian perspectives.

10. For example, compare the *World Declaration on Education for All* [WCEFA, 1990], and the *Delhi Declaration* [EFA Summit, 1993], with the *Universal Declaration of Human Rights* [United Nations, 1948], the *Rights of the Children* (International Year of the Child, 1979), and the *Convention of the Rights of Child* [United Nations, 1989], among many UN and UNESCO resolutions.

11. See also Pasacharopoulos [1990].

12. See Bray [1987] for a description of such shifts in Nigeria, Ghana, Kenya, etc.

13. The World Bank [1986] documented that in 21 out of 36 countries on which information was available there were user charges in primary education. See Ainsworth [1984] for a description of fee levels and policies in school education in a number of countries. See Tilak [1996, Pp. 275-82 and Pp. 355-66] for recent evidence on India.

14. Targeting of subsidies has been found to be necessarily inherently defective in developing countries, resulting in higher levels of omission of the deserving poor from the consumption of the same. This is found to be true even in case of food subsidies, when initial investments by the poor are not a pre-requisite [e.g., Cornia and Stewart, 1995, Pp. 350-86; Parikh, 1994], unlike in education where initial investments by the poor are essential.

15. However, with the sudden upsurge of the credit cards and financing schemes in the capital markets in the developing countries, a significant change in the attitude of the people is

likely to be seen. Very significant changes could already be noted in case of East Asian countries. South Asian countries are a little behind in these changes.

16. Bray and Lillis [1988] have documented similar evidence on a number of countries to show that community support for education became valuable when government finances for education declined.

17. Intensely adjusting countries are those countries that have received three or more structural adjustment loans, or completed two structural adjustment loan programmes, by 1989, with lending starting in or before 1985. Other groups of adjusting countries, viz., those that have received less than three structural adjustment loans before 1985, or those that have received adjustment loans after 1985, are not included here.

18. Non-adjusting countries are those countries that did not need IMF/World Bank types of adjustment programmes as of 1989, and had an increase in average annual per capita GDP growth during the period 1980-87. Another group of non-adjusting countries, i.e., those who had experienced negative rate of growth in GDP are not considered here.

19. See Tilak [1997b, Pp. 85-107] for related details.

20. When one examines the trends in thinking on externalities, one is reminded of Adam Smith, who defined 'the fallacy' in his *Super Money* [quoted by Jodha, 1988, p. 2,421-28] as follows:

- The first step is to measure whatever can be easily measured: This is ok as far as it goes.
- The second step is to disregard that which cannot be measured or give it an arbitrary quantitative value: This is artificial and misleading.
- The third step is to presume that what cannot be measured easily is not very important: This is blindness.
- The fourth step is to say that what cannot be easily measured really does not exist: This is suicide.

21. See Ziderman and Albrecht [1995] for documentation on the prevalence of national service in developing countries.

22. Then, to promote family values, the United Nations and other organisations might celebrate the International Year of the Family, etc., as has been attempted recently in 1994.

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INDIA AND GLOBALISATION: SOME REFLECTIONS ON INDIA'S TRADE LINKS WITH G-7

Bhaskar Majumder

The government of India adopted the New Economic Policy (NEP), 1991, that stood on the principle of liberal import-led industrialisation. This paper concentrates on the post-NEP half-a-decade in the context of the 1980s to examine the nature of integration of India's economy in G-7. This paper aims to show that the more India links herself with G-7 in trade, the more she gets indebted to each of the countries in G-7, in association with the falling value of Rupee vis-à-vis the currency of each country in G-7. Thus, the paper claims, a major explanation for India's long-term constraint on industrialisation lies in this integration in G-7. Hence, what India needs is adoption of 'hard' internal decisions relying on 'national power' and 'soft' diplomatic relations with the neighbours.

It is often alleged that India was largely delinked from the global economy during the first two decades of her development planning (1950s and 1960s) because of her reliance on inward-looking policies based on quantitative restrictions on imports [Bhagwati and Desai, 1970, p. 122; Majumder, 1990, p. 129; GATT, 1993, Vol. I, p. 1]. As observed by the GATT (1993) Secretariat, 'Since June 1991, India has markedly accelerated its movement towards an open outward-oriented trade policy. The present economic orientation reflects a recognition that previous policies, with a highly protectionist trading regime and wide-spread regulatory controls, had contributed greatly to the economic crisis of the early 1990s' [GATT, 1993, Vol. I, p. 1]. We are not going to examine in this paper the locus of the emergence of crisis. It is a fact that the New Economic Policy (NEP), 1991, announced by the Government of India (GOI) in June, accepted the authority of the Developed Market Economies (DMEs), essentially with the U.S. at the vertex of distribution of global power, more so in a post-cold war unipolar world.

The participation of a late-starter in the post-Second World War has been conditional upon three factors: (1) To learn how major industrial countries (G-7) operate, (2) To learn how Trans National Corporations (TNCs) operate, and (3) To learn how International Financial Institutions (IFIs) operate. We know, that TNCs essentially originate from G-7 countries, while the voting structure in IFIs is basically controlled by the G-7. We will try to examine in this paper how India fared, through her participation with the G-7, in integrating herself in the global capitalist order shaped by G-7 in recent times. In this context, we will search for a strategy that India can adopt to promote her industrialisation.

In section I, we present in brief the NEP, 1991 and its rationale for trade-led industrialisation. In section II, we examine the post-NEP trade-related scenario with a background reference to India's link with G-7 in the 1980s. We concentrate on trade in commodities and technology. In section III, we try to search for the options for India's trade-led industrialisation for the coming decades of the 21st century.

I. NEP: Its Trade Rationale

The NEP 1991 made it clear that 'India can grow faster as part of world economy and not in isolation. Our trade policy must therefore create an environment that will provide strong impetus to exports and render export-activity profitable' [GOI, 1991, p. 24]. The package of trade policy reforms announced on July 4, 1991 aimed at access to high technology and world markets. The reforms aimed at 'strengthening export incentives, eliminating a substantial volume of import licensing and optimal import compression in view of the balance of payments situation. Essential imports of sensitive items such as Petrol, Oil and Lubricants (POL) and fertilisers were fully protected, but other imports of raw materials and components were linked to export performance' [GOI, 1991, p. 24].

In addition to 'abolition of phased manufacturing programme' which ensures abolition of any attempt to force the pace of 'indigenisation' in manufacturing or which eliminates any need

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The author has benefited much from the comments and suggestions of an anonymous Referee on an earlier draft of the paper. The usual disclaimer applies.

for enforcing 'local content requirements', the New Economic Policy aimed at reducing the 'interference' of government, if not at totally abolishing it, in matters related to import of technology by Indian firms, particularly in high technology and high investment priority industries [GOI, 1991, Pp. 3-4]. As viewed by GATT secretariat, 'In July 1991, India began implementing longer-term structural reforms to address one of the root causes of its economic problems, i.e., government overregulation' [GATT, 1993, Vol. I, p. 20].

The reforms initiated in accordance with these policy objectives 'aimed at creating a less regulated and more market oriented economy' which is expected to offer 'economic benefits both for India's trading partners and for the domestic economy' [GATT, 1993, Vol. I, p. 8].

The rationale of this policy in brief is as follows:

1) Improved resource-efficiency, particularly in the export sector;
2) Utilisation of excess capacity emerged, particularly in the capital goods sector, after 1966, i.e., the argument of 'vent-for-surplus';
3) Attaining international competitiveness in both home and world market, via utilisation of economies of scale, i.e., ensuring both comparative and competitive advantage;
4) Tackling 'inflexibility' of maintenance imports (POL, fertilisers, etc.) via generating 'export capacity to import';
5) Tackling excess internal demand (product-specific) by following the 'make or buy' policy, i.e., import liberalisation; and
6) Accepting export promotion as a derivation of import liberalisation, what may be called, 'import-led-growth-led export'.

II. India's Trade-Link with G-7

Participation of a country in the global order is conditional upon the initial distribution of power in the globe and, at the same time, that attempted participation reflects the extent to which it can absorb the shocks latent in that participation. In the context of participation in world production and trade, this initial condition for the remote past has been explained elsewhere [Frank, 1996, p. PE 56]. Given the context of the Third World in the global capitalist order in terms of distribution of world output and world exports, we examine the trade-linked location of India in G-7. We concentrate on the post-NEP period against the back-drop of the 1980s, i.e., the immediate past.

In 1991, less than one-sixth of world population in DMEs commanded nearly three-fourth of world output, while more than three-fourth of world population in the Third World Countries (TWCs) shared only one-sixth of world output (Table 1A). The country-specific distribution of world output shows the situation heavily weighted in favour of the major industrial countries, viz., G-7. For example, the DMEs' share in world output stood at nearly three-fourth of world output in 1994, that of G-7 stood at three-fifth and that of the developing world at one-sixth of world output (Table 1B). World production is thus essentially controlled by G-7. This is a logical corollary to the distribution of world resources, e.g., in 1993, the richest 20 per cent of the world's population controlled 150 times more resources than the poorest 20 per cent [Wilkinson, 1996, p. 256].

While 16 per cent of world population in DMEs enjoy a per capita income (GDP) more than 20 times what 77 per cent of population in the developing world does [UN, 1992, p. 11], 12 per cent of world's population in G-7 countries enjoy a per capita income (GNP) sixty to hundred times what 16 per cent of world's population in India does (Table 2).

During 1982-91 DMEs' share in value of world exports stood above 65 per cent for each year and, in fact, rose above 70 per cent during 1986-91 (Table 3). This is enough for the exercise of command by DMEs in shaping the global export structure.

Table 1A. Distribution of World Output, 1991

Sr. No. (1)	Countries (2)	Percentage of World Population (3)	Percentage of World GDP* (4)	Per Capita GDP (in 1988 dollars) (5)
1.	Developed Market Economies (DMEs)	15.67	72.73	1,821.97
2.	Economies in Transition	7.28	10.59	571.58
3.	Developing Countries	77.05	16.67	84.96

Note: *GDP = Gross Domestic Product, in billions of 1988 dollars.
Source: United Nations, *World Economic Survey*, 1992, p. 11.

Table 1B. Share (%) of G-7 in World Output, 1994

(1)	*Share in* World Output (GDP) (2)
Industrial Countries	(73.7)
U.S.	24.8
Japan	14.6
U.K.	4.3
Germany	6.9
France	5.3
Italy	4.7
Canada	2.6
G-7 Total	59.2
Developing Countries	(17.4)
Asia	7.4
Africa	1.7
Latin America	4.2

Note: GDP Shares based on U.S Dollar Valuation of Country GDPs.
Source: Asian Development Bank (ADB), 1995.

Given this background of command of G-7 in world output and world exports, let us see how India is linked with G-7 in terms of trade and investment. The percentage share of G-7 in India's exports during 1980-96 shows that two-fifth to half of India's exports went to markets offered by countries in G-7. While the U.S. maintained the lead, Japan did not remain far behind as an export market for India's products (Table 4). The countries India continued to rely on during 1980-94 for import of goods were obviously the G-7. One-third to nearly half of India's total imports from the rest of the world came from G-7. While the U.S. maintained the lead as a seller of India's importable products, Japan moved faster during the mid-1980s (Table 5). India's participation in trade with the rest of the world is thus explained primarily by participation with G-7 during the period observed.

Table 2. India and G-7 Countries, Selected Indicators, 1993

Sr. No. (1)	Indicators (2)	India (3)	U.S. (4)	Japan (5)	U.K. (6)	Germany (7)	France (8)	Italy (9)	Canada (10)	G-7 Total (11)
1.	Population (% of World Total)	16.32	4.68	2.26	1.05	1.46	1.04	1.04	0.52	12.05
2.	GNP Per Capita (U.S. $)	300	24,740	31,490	18,060	23,560	22,490	19,840	19,970	

Source: World Bank, 1995, Pp. 162-63.

Table 3. Share (%) in World Exports, 1980-91

Countries (1)	1980 (2)	1981 (3)	1982 (4)	1983 (5)	1984 (6)	1985 (7)	1986 (8)	1987 (9)	1988 (10)	1989 (11)	1990 (12)	1991 (13)
DMEs (%)	62.66	62.27	65.67	66.12	66.63	68.02	72.20	72.15	72.51	71.89	72.65	73.05
Developing Countries (%)	29.37	29.61	27.35	26.82	26.75	25.59	21.69	22.44	22.76	23.79	23.71	24.39
Total Value of Exports ($ Billion)	1,998 (100.0)	1,972 (100.0)	1,806 (100.0)	1,771 (100.0)	1,873 (100.0)	1,895 (100.0)	2,083 (100.0)	2,438 (100.0)	2,768 (100.0)	2,988 (100.0)	3,408 (100.0)	3,469 (100.0)

Source: United Nations, 1992, p. 50 and p. 44.

While India relies on G-7 for export of her goods, let us see the type of goods the G-7 countries like to buy from India. It is observed from the percentage of import bill spent by any country in G-7 on goods imported from India during 1990-95, that the major imports by G-7 happened to be confined to six traditional items, viz., gems and jewellery, cotton, handmade carpets, leather manufactures, iron ore and marine products. For each country within G-7, only three to four items within these six traditional items covered generally two-fifth or more of import bill of each on India's traditional products (Table 6). This reveals the preference pattern of G-7 in her import links with India and at the same time it shows India's potential in penetrating the markets of countries in G-7 in terms of her product-structure.

So far as traditional items are concerned (agro-based and mineral-based), India ranks high with respect to trade with G-7 of these items and this includes all the competing exporters in the world aiming at the market of G-7. On the basis of percentage share of imports of commodities by countries in G-7 in 1994, we find India ranking within the first ten countries for the items we have covered, viz., pearls and precious stones, gold and silver jewellery, textile articles, clothing and accessories, leather and leather manufactures, tea, and iron ore. These are traditional low-technology items that India continued to rely on for her exports to countries in G-7. Considering the percentage of import bill spent by Japan on iron and steel (within capital goods, i.e., K-goods) in 1994, India hardly mattered while for U.S., India ranked twentieth (Table 7).

In general, India's ranking by percentage of import bill on capital goods spent by G-7 is, so to say, non-recognizable. Five countries in G-7, viz., U.S., U.K., France, Germany and Canada did not import any capital goods from India in 1990-91 and this may be taken as a reflection of their long-term trade relations with countries in the Third World [Bagchi, 1982, Pp. 118-19]. Exports of capital goods from India, however, improved a little during the post-NEP period, as may be seen from the percentage share spent on imports of capital goods from India by countries in G-7 in 1994-95. The import bill on capital goods from India as a percentage of total import bill on these goods by each country in G-7 in 1994-95 remained however below 10 per cent, excepting U.K. (Table 8). Thus, India's exports of capital goods till date to those countries in G-7 are not significantly large. One implicit expectation behind adoption of an 'open-door trade-led industrialisation' policy for a late starter like India in the Third World is ensuring the possibility of promotion of exports of capital goods. This is yet to take shape for India. Excepting U.K. (high at 10 per cent) and Japan (low at 3 per cent), the share of each country in G-7 in 1994-95 imports of capital goods from India is around 6 per cent from a very low initial figure at less than 1 per cent in 1990-91. Open-door trade-led industrialisation thus, we agree, carried with it promotion of exports of capital goods. However, the period (post-NEP) covered is too short to claim anything bold on this account.

Table 4. Share (%) of G-7 in India's Exports, 1980-96

Countries (1)	1980 (2)	1985 (3)	1986 (4)	1987 (5)	1988 (6)	1989 (7)
U.S.	11.3	18.2	18.7	18.7	18.5	16.2
Japan	9.7	10.7	10.7	10.3	10.7	-
U.K.	6.1	4.8	5.6	6.4	5.7	5.8
Germany*	6.3	5.6	6.6	7.5	7.0	6.4
France	2.2	1.9	2.2	2.4	2.1	-
Italy	2.6	1.9	2.5	3.2	2.7	-
Canada	0.9	1.2	1.1	1.1	1.0	1.0
G-7 Total	39.1	44.3	47.4	49.6	47.7	30.4
World Total (U.S. $ Million)	7,510.6 (100.0)	8,949.5 (100.0)	9,751.7 (100.0)	12,039.9 (100.0)	13,915.2 (100.0)	16,626.0 (100.0)

Table 4. (Concld.)

Countries (1)	1990 (8)	1991 (9)	1991-92 (10)	1992-93 (11)	1993-94 (12)	1994-95 (13)	1995-96[a] (14)
U.S.	14.8	16.4	16.35	18.97	17.98	19.13	17.37
Japan	9.4	9.3	9.24	7.75	7.83	7.74	6.87
U.K.	6.5	6.4	6.37	6.55	6.20	6.44	6.49
Germany*	7.8	7.1	7.11	7.70	6.92	6.62	6.21
France	2.4	2.4	2.38	2.54	2.27	2.22	2.32
Italy	3.1	3.2	3.25	3.36	2.72	3.27	3.19
Canada	0.9	1.1	1.06	1.03	1.02	1.02	0.98
G-7 Total	44.9	45.9	44.70	47.93	44.94	46.44	43.40
World Total (U.S. $ Million)	17,858.8 (100.0)	17,873.0 (100.0)	17,865.0 (100.0)	18,537.0 (100.0)	22,238.0 (100.0)	26,330.0 (100.0)	31,828.0[b] (100.0)

Notes: * : Unified Germany; a: Figures for April-June; b: For April-March; -: Not Available.

Sources: GATT, 1993, p. 27.

CMIE, 1996, p. 81 (For 1991-92 to 1995-96).

Table 5. Share (%) of G-7 in India's Imports, 1980-94

Countries (1)	1980 (2)	1985 (3)	1986 (4)	1987 (5)	1988 (6)	1989 (7)	1990 (8)	1991 (9)	1992-93 (10)	1993-94 (11)
U.S.	11.5	10.5	9.3	9.0	11.4	12.0	10.7	9.7	9.81	11.74
Japan	5.0	9.0	12.8	9.5	9.3	8.0	7.5	7.0	6.52	6.53
U.K.	5.4	6.4	8.2	8.2	8.5	8.4	6.4	6.1	6.47	6.59
Germany	5.6	8.3	9.9	10.1	9.2	7.8	8.0	8.0	7.59	7.68
France	2.1	3.0	3.4	3.6	2.8	4.6	2.8	3.0	2.72	2.54
Canada	2.3	2.3	1.9	1.3	1.5	1.3	1.3	1.4	1.85	1.01
Italy	-	-	-	-	-	-	-	-	2.39	2.30
G-7 (Excluding Italy)	31.9	39.5	45.5	41.7	42.7	42.1	36.7	35.2	37.35*	38.40*
World (U.S. $ Million)	13,818.7 (100.0)	16,223.6 (100.0)	15,721.7 (100.0)	17,153.8 (100.0)	19,350.7 (100.0)	21,272.0 (100.0)	23,798.7 (100.0)	19,509.1 (100.0)	63,375.0[a] (100.0)	73,101.0[a] (100.0)

Notes: * Data include Italy; a = Data in Rs Cr; - Data not available.
Sources: GATT, 1993, p. 29; Ministry of Industry, 1995, *Handbook of Industrial Policy and Statistics*, Government of India, New Delhi, Pp. 293-95.

Table 6. Percentage Share of Countries in G-7 on Commodities Imported from India, 1990-95

Sr. No.	Commodities	U.S.A.		Japan		Germany		U.K.		Italy		France		Canada	
		1990-91	1994-95	1990-91	1994-95	1990-91	1994-95	1990-91	1994-95	1990-91	1994-95	1990-91	1994-95	1990-91	1994-95
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
1.	Gems and Jewellery	34.74	29.76	32.35	28.54	15.40	16.46	6.75	4.01	-	-	5.21	4.14	4.08	2.93
2.	RMG* Cotton including Accessories	12.56	15.97	-	-	-	-	14.78	13.99	10.77	11.46	24.78	28.66	25.75	30.87
3.	Cotton Yarn Fabrics Madeups	4.49	5.13	-	-	6.81	7.66	11.76	13.58	-	12.64	-	9.82	4.47	8.09
4.	Leather Manufactures	6.56	3.10	-	-	24.89	11.68	14.57	4.15	30.96	6.66	14.76	7.03	10.43	3.19
5.	Marine Products	-	-	15.71	24.45	-	-	-	-	4.76	4.14	-	-	-	-
6.	Iron Ore	-	-	22.22	10.93	-	-	-	-	-	-	-	-	-	-
7.	Carpets Handmade	-	-	-	-	8.88	7.89	-	-	-	-	-	-	-	-
	Total % Share	58.35	53.96	70.28	63.92	55.98	43.69	47.86	35.73	45.77	34.90	44.75	49.65	44.73	45.80

Note: * Readymade Garments.
Source: CMIE, 1996, Pp. 93-96, 100, 105, 114.

Table 7. India's Rank in Imports of Commodities from India by Countries in G-7, 1994

Sr. No.	Countries	Pearls and Precious Stones		Gold and Silver Jewellery		Clothing and Accessories		Textiles Articles		Leather and Leather Goods		Tea		Iron Ore		Iron and Steel (finished product)	
		% Share	Rank	% Share	Rank	% Share	Rank	% Share	Rank	% Share	Rank	% Share	Rank	% Share	Rank	% Share	Rank
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
1.	U.S.	20.64	3	5.27	6	3.74	7	6.27	4	-	-	5.25	6	Neg.	Ins.	0.86	20
2.	Japan	0.60	7	4.24	8	5.98	2	10.41	3	8.31	2	18.67	2	Neg.	Ins.	Neg.	Ins.
3.	U.K.	13.94	1	1.86	10	0.85	11	4.56	3	4.11	8	8.20	4	12.39	3	2.53	6
4.	Germany	10.44	4	2.95	9	3.31	8	6.71	3	-	-	37.87	1	Neg.	Ins.	Neg.	Ins.
5.	France	5.84	6	1.55	11	3.82	6	7.12	6	5.48	4	7.10	4	0.95	7	Neg.	Ins.
6.	Italy	8.75	4	3.61	9	4.34	8	6.30	4	5.68	4	-	-	7.88	4	Neg.	Ins.
7.	Canada	-	-	2.18	7	5.04	5	3.58	4	0.91	14	3.36	6	0.0	0	Neg.	Ins.

Notes: Neg.: Negligible; Ins.: Insignificant; -: Not Available.
Source: CMIE, 1996, Pp. 156-57, 177-84.

Table 8. Imports of Capital Goods by Countries in G-7 from India (% Share), 1990-95

Sr. No.	Capital Goods from India	U.S.		Japan		U.K.		Germany		France		Italy		Canada	
		1990-91	1994-95	1990-91	1994-95	1990-91	1994-95	1990-91	1994-95	1990-91	1994-95	1990-91	1994-95	1990-91	1994-95
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
1.	Manufactures of Metals	-	3.37	-	0.61	-	4.66	-	2.72	-	1.66	-	0.96	-	4.22
2.	Machinery & Instruments	-	1.58	-	-	-	3.07	-	2.10	-	1.06	-	1.05	-	1.46
3.	Transport Equipment	-	1.34	-	-	-	2.60	-	1.37	-	3.16	-	1.34	-	1.22
4.	Primary & Semi Finished Iron & Steel	-	-	0.23	2.49	-	-	-	-	-	-	1.36	1.94	-	-
	Total	0.0	6.29	0.23	3.10	0.0	10.33	0.0	6.19	0.0	5.88	1.3	5.32	0.0	6.90

Note: - Implies 'no imports by the concerned country in G-7'.
Source: CMIE, 1996, Pp. 93-94, 96, 100, 105, 114.

Table 9. India's Agreements with G-7 for Foreign Investment (% Share in Value), 1975-95

Sr. No.	Countries	1975-86	1987	1988	1989	1990	1991	1992	1993	1994	1995	1975-95
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
1.	U.S.	21.61	27.40	40.51	19.62	26.87	34.79	31.67	39.07	38.94	22.84	28.95
2.	Japan	13.91	6.41	7.27	2.77	3.89	9.87	15.69	2.90	4.47	4 90	5.41
3.	U.K.	5.63	7.84	5.80	10.40	7.06	6.01	3.02	7.02	14.50	5.58	7.15
4.	Germany	10.12	9.91	12.93	37.90	15.20	7.82	2.22	1.98	6.35	4.34	4.49
5.	France	2.11	4.96	4.91	2.67	6.92	3.62	0.76	1.45	1.01	1.36	1.35
6.	Italy	3.62	2.75	11.62	2.18	5.32	3.33	2.29	1.32	4.36	1.49	2.09
7.	Canada	0.89	0.62	0.11	0.37	0.51	0.87	0.02	0.31	0.46	4.45	2.67
8.	*G-7 (Total)*	57.89	59.59	83.15	75.91	65.77	66.31	55.67	54.05	70.09	44.96	54.78
9.	*NRI*	11.57	19.28	7.01	6.69	4.09	3.68	11.29	11.77	5.48	2.29	5.19
10.	*Total (Rs Lakh)*	51,350	10,771	23,977	31,667	12,832	53,411	388,754	885,933	895,675	3088,222	5441,934
		(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)

Note: NRI: Non Resident Indian.
Source: CMIE, 1996, *India's Balance of Payments*, July, p. 60.

In this context, India continued to attach herself to G-7, attracting investment by those countries that would carry high-technology, since it is known that G-7 controls the lion's share of world trade in high-tech sectors [Paolo and Carlo, 1995, p. 229]. During 1975-86, NRI contribution to foreign investment in India was high, more than 10 per cent. During the first two years of post-NEP, i.e., 1992 and 1993, again it was high. All the same, it was G-7 which continued to dictate the size of foreign investment, particularly during the post-NEP years, excepting 1994-95, (Table 9).

Apart from the question related to the standard and suitability of technologies generated in DMEs, particularly in G-7, the governments in countries like India chase foreign investment-cum-technology, since they feel powerless without technology that is 'high' by global standard. High-tech global capitalist order thus is mythologised in TWCs.

Let us see what we derived in this process: a process where India is linked with G-7 via trade in technology and commodities. The most vulnerable situation India has attained during the post-NEP period is in respect of her long-term external debt (Table 10 A). While India's external debt in 1995 became almost twice of what it was in 1991 in a situation of monotonic increase in debt, what makes the situation serious is her long-term debt which nearly equals the whole of total debt during 1980-95. This imposes a long-term constraint on India's choice of growth path and the possibility of development. One immediate reason behind India's accumulation of external debt is linked with seeking aid from external sources to supplement internal saving. The process of planning in India itself may be viewed as seeking aid which inhibits gaining autonomy. While it is true that a country can plan to generate enough savings from internal sources for maintaining its output plan, in reality, India chose to follow a path which was (1) war-dependent, i.e., dependent on imports of weapons, (2) dependent on repetitive imports of 'high' technologies developed in DMEs, (3) dependent on import of non-essentials for final consumption, and (4) dependent on export promotion. The constraints are thus self-imposed. A major portion of this debt is linked with currencies of countries in G-7. In fact, G-7 accounted for more than two-thirds of India's total external debt during 1994 and 1995. If debt due to Special Drawing Rights (SDRs) from International Monetary Fund (IMF) is included, then India owed more than 80 per cent of her total debt to G-7 during the mid-1990s (Table 10 B).

Table 10A. India's External Debt (By End of March), 1980-95

Year (1)	Total (Rs Crore) (2)		Long-Term Debt (As per cent of Total Debt) (3)
1980	-		89.08
1987	-		82.60
1988	-		84.72
1989	88,403		87.65
1990	130,199	(47.28)	86.38
1991	163,001	(25.14)	87.47
1992	252,910	(55.15)	87.60
1993	280,746	(11.01)	89.59
1994	290,418	(3.44)	90.50
1995	311,792	(7.36)	95.69

Notes: Figures in brackets indicate annual percentage change; - Implies Not Available.
Source: CMIE, 1996, *India's Balance of Payments*, July, Pp. 44, 49.

Table 10B. India's External Debt to G-7 (% Share), End-March, 1994-95

Country	Currency	Per cent Share in External Debt	
		1994	1995
(1)	(2)	(3)	(4)
U.S.	Dollar	41.409	39.114
Japan	Yen	13.747	15.528
U.K.	Pound Sterling	3.310	3.346
Germany	DM	6.289	6.922
France	Franc	1.794	1.742
Italy	Lira	0.028	0.040
Canada	Canadian Dollar	0.748	0.651
G-7 (Total)	-	67.913	67.340
SDRs	SDRs	14.910	15.144
Total External Debt (including other currencies and SDR)	-	92,676*	99,082*

Notes: *: Total in U.S. Million Dollar; - : Implies not applicable.
Source: CMIE, 1996, *India's Balance of Payments*, July, p. 46.

This acute indebtedness of India to G-7 went in association with the falling value of Indian Rupee *vis-à-vis* currencies of all the countries in G-7, i.e., falling exchange rate for India, during 1980-1996 (Table 11). Contrary to conventional wisdom, this monotonic fall in exchange rate could not promote exports nor could it save imports so as to yield at least medium-term favourable balance of trade. This could be explained as follows:

The Third World (TW) export structure, that reflects its production structure, aims at buyers in DMEs. Since this TW export structure continued to rely on promotion of primary or low-technology goods, the export strategy cannot capture the markets of DMEs constituted by high income people. Operation of Engel's law is sufficient reason for the failure of such an export strategy [Majumder, 1996b, p. 51].

The same explanation holds good for India's trade-link with G-7.

In fact, the balance of trade for India remained adverse for the 1990s, as it was during the first four decades of development [CMIE, 1996, p. 1]. The economy of India thus needs corrective steps to choose her path of development.

Table 11. Value of Rupee Relative to Currencies of G-7, 1980-95
(Number of Rupees per unit of relevant currency)

Year (1)	U.S. Dollar (2)	Germany DM (3)	U.K. Pound Sterling (4)	Japan Yen (5)	France Franc (6)	Italy Lira (7)	Canada Dollar (8)
1980-81	7.91	4.19	18.50	0.037	1.80	0.009	6.72
1981-82	8.97	3.86	17.11	0.039	1.57	0.008	7.46
1982-83	9.67	3.96	16.14	0.039	1.43	0.007	7.81
1983-84	10.34	3.94	15.42	0.004	1.30	0.007	8.34
1984-85	11.89	3.99	14.87	0.049	1.30	0.007	9.01
1985-86	12.24	4.56	16.85	0.056	1.49	0.007	8.89
1986-87	12.78	6.30	19.07	0.080	1.93	0.009	9.31
1987-88	12.97	7.40	22.09	0.094	2.20	0.010	9.91
1988-89	14.48	8.05	22.60	0.113	2.37	0.011	11.96
1989-90	16.65	9.09	26.92	0.117	2.68	0.012	14.09
1990-91	17.94	11.44	33.19	0.128	3.39	0.015	15.44
1991-92	24.47	14.75	42.93	0.186	4.34	0.0197	21.48
1992-93	28.96	18.41	48.83	0.2326	5.47	0.0224	23.56
1993-94	31.37	18.74	47.20	0.2912	5.46	0.0197	23.94
1994-95	31.40	20.20	48.82	0.3163	5.86	0.0196	22.73
1995-96	33.42	23.37	52.30	0.3480	-	-	-

Note: -: Not Available.
Source: CMIE, 1996, *India's Balance of Payments*, July, p. 22.

III. Options for India

No economy in the world today can escape globalisation as an arrangement of commodity production across national boundaries [Frobel, *et al.*, 1980, p. 12, Pp. 45-46; Gordon, 1988, p. 24; Griffin, 1981, p. 221; Majumder, 1996a, Pp. 477-478]. Globalisation of the late 20th century is essentially a process of changing the *modus operandi* of the capitalist world system [Wilkin, 1996, p. 228]. What is being stressed now by the DMEs is searching for production centres beyond national boundaries, instead of relying on capturing world market for exports or the earlier form of trade-linked globalisation [Nayyar, 1995, Pp. 3-18].

Globalisation has become a compulsion for countries like India in the Third World when (1) these TWCs (perhaps excluding capital-surplus oil exporters) cannot even withdraw themselves in the short run from the network of international financial system; (2) the Newly Industrialised Countries (NICs) within the TW may be reluctant to reduce any percentage of their actual and potential export earnings for their neighbours in Asia, in particular and the TW, in general; (3) Organisation of Petroleum Exporting Countries (OPEC) may have its own logic (oil price hike in an oligopolistic frame) of prosperity; and when (4) some of the countries in the TW may have their own interests for being identified with some of the countries in G-7, e.g., Mexico with U.S. in North American Free Trade Agreement (NAFTA), with U.S. Banks, etc.

The situation today is not one of optimism for India who had (1) to absorb the shocks of the disintegration of the U.S.S.R.-led socialist Bloc in the 1980s with whom she maintained a shorter geopolitical distance relative to the 'North'; (2) to accept conditionalities imposed by the IMF, run by 'dollar vote' [Tanzer, 1995, p. 8]; and (3) to accept falling exchange rate through regular devaluations in an unequal world. It is not surprising that world resources and world output being controlled by, at the most, 20 per cent of world population in DMEs, the rules of the game will be dictated by them (particularly by G-7 representing them) to the detriment of the interests of the TW [Wilkinson, 1996, p. 265].

The situation got worse for India when (1) the TW solidarity got a major blow following the oil-shock of 1973, thus jeopardizing the course of New International Economic Order (NIEO) [Faria, 1991, p. 243; Anell and Nygren, 1980, p. 126]; and when (2) the formation of lobbies or 'regionalisation' led by dominant countries came as a fact in history, e.g., (a) formation or European Union (EU) [Baldwin, 1995, p. 474; Rollo, 1995, p. 468] consisting of 15 member states with population of 34 crore, and (b) formation of NAFTA comprising the U.S.A., Canada and Mexico. The purpose of such regionalisation is obviously to create pressure on countries in the TW to open their doors for the entry of Transnational Corporations (TNCs) which originate from DMEs, apart from maintaining internal pressure in Organisation for Economic Cooperation and Development (OECD) [Singh, 1979, p. 599]. What remains true however is that the DMEs, particularly G-7, advocating open-door policy for TWCs had in the past also 'liberalized trade on an area basis, while maintaining restrictions against other areas in which most of the (Less Developed Countries) LDCs are located' [GATT, 1962, Pp. 8-9].

In the frame of regionalism-oriented interaction in global power-structure, India could not include herself in the newly formed APEC (Asia-Pacific Economic Cooperation) in 1995 accommodating 18 member countries, 11 of them being Asian members, which included both China and Japan. Interestingly, it includes countries which are also members of NAFTA [Yamazawa, 1995, p. 113]. This is the context in which India should think about her options for trade-led industrialisation.

In the view of World Bank in recent period, India is a 'Low-income, moderately indebted diversified exporter' [World Bank, 1995, p. 251]. The question then is one of raising income per capita, reducing external debt and taking advantage of a diversified basket of exportable goods. The question is: how? While answers to the first two questions are not attempted here, we shall try to deal with the third question.

Table 12. Direction of Exports from India and Selected Countries in Asia (% Share), 1985-93

Sr. No.	Countries	Developing Asia*		Japan		U.S.		E.U.		Others		Total	
		1985	1993	1985	1993	1985	1993	1985	1993	1985	1993	1985	1993
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1.	Developing Asia*	27.6	34.1	17.5	12.5	22.6	20.8	11.2	13.8	21.3	18.9	100.0	100.0
2.	India	8.9	19.9	11.1	8.4	18.9	19.1	16.7	23.4	44.4	29.2	100.0	100.0
3.	China	38.2	34.6	22.3	17.2	8.5	18.5	7.8	12.1	23.3	17.5	100.0	100.0
Newly Industrialising Economies													
4.	Hong Kong	35.6	41.2	4.2	5.2	30.8	23.1	11.8	14.2	17.6	16.4	100.0	100.0
5.	Korea	12.9	28.6	15.0	13.8	35.6	21.7	10.4	10.2	26.0	25.7	100.0	100.0
6.	Singapore	36.6	41.1	9.4	7.5	21.2	20.4	10.1	13.5	22.7	17.7	100.0	100.0
7.	Taiwan	15.6	31.7	11.3	10.6	15.5	27.7	5.5	7.9	52.3	22.1	100.0	100.0

Note: *: Developing Countries in Asia who are members in Asian Development Bank (ADB) (Japan not included).
Source: ADB, 1995, p. 250.

An examination of trade between the developed and the developing world shows intra-trade among countries within the developing world much less than that between countries within the developed world. During 1985, countries in Asia (excluding Japan) constituting the developing world got involved in intra-trade that captured a little more than one-fourth of their share in world exports. This gradually increased to one-third in 1993. But then U.S. and EU together captured in 1993, as they did in 1985 also, the same percentage of exports from 'developing Asia' (Table 12). The percentage share of intra-trade among developing Asia can be further increased. In fact, India tried this path, if data for 1985 and 1993 are any guide, where it could raise its exports from 9 per cent to 20 per cent as percentage of her exports to the rest of the world.

Some primary and positive characteristics should be common for countries trying to unite, maintaining however their national sovereignty. This happens to be one of the bases of New International Economic Order (NIEO) [Anell and Nygren, 1980, Pp. 187-191; Faria, 1991, p. 243]. The common plank may rest on (i) agreement on sharing of resources (oil, water, gas etc.), (ii) Research and Development (R & D) collaborations and open manpower mobility, (iii) mutual respect for ideology, belief and culture, and (iv) sharing of diplomatic ideas. The characteristics common but negative for those countries are that (i) they happen to be an appendix to the process of world decision-making, (ii) they are post-Second World War decolonized and late-starters, and (iii) they have bottom level ranks in terms of human development and related social indicators. While the post-1973 heterogeneity of countries in the TW cannot be eliminated easily and, while multiple membership of a single country in a number of blocs would remain valid, India has to rely more on the 'like-culture' countries, particularly neighbours and countries around the Indian ocean.

Economically speaking, there is no apparent reason why positive growth-differential between the 'developing world' and the 'developed world' represented by G-7 during 1994-96 should not be translated into increasing percentage of intra-developing world trade [ADB, 1995, p. 238]. The fact is that growth rates in most of the developing countries during post-Second World War period have been higher not only than the historic growth rates of the older developed countries [Bhagwati, 1986, p. 18] but also than those of the 'developed world' on recent identical time-horizon (1955-74) [Singh, 1979, p. 594]. The fact is this growth-differential could not be translated into export-differential in favour of intra-trade inside the developing world. Obviously the oil shock of 1973 cannot be held responsible for this. What growth rate is needed to be attained by the countries in the TW is not known in an 'unequal world' when the G-7 monopolises the mechanism through TNCs, International Financial Institutions (IFIs) and, if necessary, military power, to ensure command over world production and trade [Bagchi, 1998, p. 1,028]. It is thus doubtful if higher growth rates of post-war TWCs can be taken as a plank for their better performance in world production and trade.

If 'Third Worldisation' is not possible at this point of time, and if 'Asianisation minus Japan' ensures no bargaining power for the developing world, then the option for India for her trade-led industrialisation lies in an extension of the South Asian Association for Regional Cooperation (SAARC) encompassing the States across the Indian Ocean. Entry and exit should be free for the member country in this formation of 'Indian Oceanisation' with share in decision-making on an equal basis.

The logic of globalisation in the shape initially of regionalisation as we have proposed has to go beyond some immediate actions aiming at recovery, e.g., in terms of inflow of aid and agreements on foreign technology and investment, whereby the countries in the developing world not only become mutually competitive but also the sites for conflict of many dimensions [GATT, 1993, Vol. I, p. 47; Wilkin, 1996, p. 231].

When the countries in the Third World attempt to catch up with the developed world and fight for trade and investment share, often they end up to the opening up of the economy to unchecked mobility of 'internatinal finance'. This may lead to crises of many dimensions. Thus, the logic of globalisation has to take care of market mechanisms, factor endowments of the national economy, etc., when it invites TNCs and competes for advanced technology.

Given the perpetual link between TWCs and DMEs, and at a reduced horizon, between India and G-7, it may be a fact that recovery of DMEs (and G-7) from the recession they suffered during the 1980s may be a necessary condition for recovery and adjustment of the TWCs, the mechanism being 'Trickle down' [Corea, 1986, Pp. 30-31]. DMEs (G-7) know that the post-Second World War growth in TWCs is not enough to absorb a significant percentage of the output produced by DMEs within their geographic boundaries. TWCs think that their growth is dependent on 'international trickle down', i.e., derived from growth in DMEs and the corporations and institutions under their umbrella. G-7 utilises the opportunity to overcome the recession it suffered from during the 1980s by assigning TWCs affiliated to each of them to impregnate the potential markets in TWCs through utilisation of resources internal to TWCs. This very nature of growth may show its limit by undermining the relative position of indigenous firms in TWCs and making the TWCs dependent on DMEs (G-7).

There are reasons to believe that, for India's trade-led-industrialisation, option (1) viz., 'Indian Oceanization', may not succeed in the immediate future, her exclusion from APEC being the least but not the last example; and (2) 'Trickle down' may not succeed when the path on 'international Trickle down' is not specifically known by countries like India. What option then remains?

The option is a compulsion, viz., to build one's own national power. When we talk about trade-led-industrialisation for India, this question boils to (1) forming manpower, that rests on educational planning, and (2) promoting internal export (i.e. purchase of commodities and services by government, being supplied by non-government individuals within the national economy) that requires an active State committed to judicious public investment. There is another supporting option, viz., forming product-specific cartel with neighbours, e.g., (a) regarding export of jute, with Bangladesh, and (b) regarding export of marine products, with Bangladesh, Sri Lanka, Pakistan, etc. The 'option exercised' signals non-ending nationalism in an extended frame and surely in the context of globalisation. For these options to be executed, the government inside the nation state has to be strong enough 'to assert its authority throughout the national territory', the authority that is accepted by the people by a process of national-social consensus [Vital, 1972, p. 124; Majumder, 1996, p. 495]. The objective of attaining for India a high profile in the 'international system' requires, to start with, maintaining a low profile in the 'regional system', e.g., offering 'small market neighbours' better incentives to maintain their internal markets.

Unity of a few rich is a natural phenomenon since they try to maintain their acquired prosperity and impose barriers to entry of the poor. Unity of large many poor is difficult since the poor will have a tendency to become rich and join the former group. The type of effective regionalisation we have talked about thus is a difficult one, though not impossible, as the experience of Japan shows by her inclusion in G-7. The basic concern is developing 'national power' to share increasing power in an unequal world. The context of trade-led-industrialisation for India of the 21st century cannot be seen in isolation from this participation in global power-structure.

GLOSSARY

DMEs	Developed Market Economics
EU	European Union
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
GOI	Government of India
NAFTA	North American Free Trade Agreement
NEP	New Economic Policy
NICs	Newly Industrialised Countries
NIEO	New International Economic Order
NIEs	Newly Industrialising Economies
NRI	Non-Resident Indian
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries

POL	Petrol, Oil and Lubricants
SAARC	South Asian Association for Regional Cooperation
SDRs	Special Drawing Rights
TNCs	Trans National Corporations
TWCs	Third World Countries

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DALIT QUESTION OF INEQUALITY, EXPLOITATION AND MOBILISATION
(A Micro View of Ground Realities)

D.M. Diwakar

Even today, the Dalit question is being treated as a separate problem of Dalit castes and is yet to be considered as that of Dalit class. The constitutional provisions for Dalits during the last fifty years remained as a prized bait in the hands of the ruling class. As a result, mobilisation and resistence of the oppressed caste/class against perpetuating inequality and exploitation have been witnessed on and off. Although this resistance has suffered fierce repression from the non-dalit rural rich in league with state machinery and resulted into a chain of violence and counter-violence, this resistence could restore social dignity and has promoted distributive justice to a limited extent. Sustained mobilisation remains the only option in future as well.

I - INTRODUCTION

Dalit is an expression of contradiction, inequality and exploitation existing in the hierarchical Indian society. It has got different connotations such as, *Atishudras, Antyajas, Avarnas, Harijans, Adivasis,* Ex-touchables, Untouchables, Downtrodden, Depressed, Exterior Castes, Scheduled Castes (SCs), Scheduled Tribes (STs), and now Dalits. These reflect the treatment that Dalit community got from the then social institutions operating under particular mode of production. Traditionally, the members of this community were generally oppressed, landless bonded labourers and sharecroppers [Beteille, 1972, Pp. 23-24]. Without going into the debate on property rights in land before the British rule in India, broadly speaking, it may not be denied that 'there were unequal rights in the control and use of land' and that 'in traditional system these inequalities were closely related to the inequalities of caste' [Beteille, 1972, p. 25]. These facts can hardly be negated even today.

In spite of acquiring exceptionally better economic position in society, wider social acceptance of Dalit is yet to emerge. Indian psyche is ingrained so badly in caste structure that it becomes difficult even in modern urban settings where mental horison is supposed to be less prejudiced among the elite (i.e., bureaucrats, medical experts, educationists, advocates, politicians, etc., in almost every sphere of life). Aberration apart, Dalits have still been isolated from the mainstream and forced to suffer from the agony and humiliation in day-to-day life. In such a situation one can imagine as to how far away rural Dalits would be from the realisation of equality of social status in a deep-rooted caste-ridden hierarchical society enmeshed in feudal ethos. Hence, it does not appear proper to isolate agrarian structure from caste, in Indian society. Lohia distinguishes caste from class in terms of immobility that has crept into class relationship, the immobility of an individual to get into a higher caste and of a whole caste to move up in status or income. Class is mobile caste. Caste is immobile class. Every society or civilization has known this movement from class to caste and vice-versa [Lohia, 1955, Chapter V, p. 24]. However, overlaping continuum of caste and class does not give free hand also to operate caste as an identity of class and needs a careful and proper treatment, even though caste and class sound closely related to each other [Beteille, 1972, p. 22; Beteille, 1969; Bhowmik, 1992, Pp. 1,246-48].

Constitutional Provisions

The question of the protection of untouchables was raised in Karachi Congress in 1931, later they were scheduled in the Government of India Act of 1935, and in 1936 they were declared as Scheduled Castes by an Order in Council under the Government of India Act, 1935 Schedule. This was further extended in 1950 by the President of India. Constitutional provisions for the SCs and STs have been made under Articles 14

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The author is grateful to the anonymous refree for his valuable comments.

and 15 (against discrimination), 14 and 16 (equality), 17 (abolition of untouchability), 19 (protection of certain rights), 23 (prohibition of traffic in human beings and forced labour), 25 (freedom of conscience, profession and practice of religion), 29 (protection of interests of minorities), 38 (promotion and welfare of the people), 46 (promotion of educational and economic interests of the SCs and STs and other weaker sections), 330, 332 (reservation for Parliament and Legislative Assemblies), 334-35 (claims of SCs and STs to services and posts), 338 (special commission for the SCs and STs) and 341-42 (for specification of the SCs and STs), etc.

The constitutional safeguards for the SCs STs appear as supplementary provisions to the basic egalitarian structure in the Constitution. Any weakness in the basic structure during the operational phase or any aberration otherwise therefrom cannot but adversely affect the entire schema for the welfare and advancement of the SCs and STs as well [Sharma, 1994, p. 20]. It would be generally agreed that till today the weaknesses inherent in basic structure could not be removed, and that even after fifty years, more articulated protection than earlier to the weaker sections is required. It was supposed to become redundant after the first ten years of Indian Independence, since it was assumed that they (weaker sections) could be brought successfully into the mainstream by that time to enjoy equality and justice [Sharma, 1994, p. 21]. Unfortunately, even today the Dalit question is being treated as a supplementary one within the existing framework in a very narrow sense with a piecemeal strategy and patch-up-work in the name of the welfare of weaker sections of the society, without working out a comprehensive package for their active participation and without taking into consideration their views and dreams about independence and justice.

Problem

Dalit question needs to be understood in a broader sense which may require a fresh articulation, taking cognizance of the past national experience, and radically different from the present form, if at all the commitment to bringing them into the mainstream is still being adhered to. This question is not a new one. Dalit articulation may be traced even earlier on the national scene during the late 1920s under the British colonial rule, when the British initiated the Round Table Conference and Communal Award. However, Dalit society has been comprehended in a broader perspective of integrated social reality by Dalit Panthers, which counts as Dalits not only the SCs, STs and Neo-Buddhists, but also includes toiling millions, the landless, the poor peasants, women and all those who are being exploited politically, economically, socially and in the name of religion [Muralidharan, 1997, Pp. 1 and 7; Guru, 1995, Pp. 98-102]. If one takes this view, all the exploited direct producers, who have been deprived of the ownership of the means of production, denied basic rights of dignified social life and livelihood, discriminated through biased socio-economic and political decisions taken in favour of the non-producing privileged class, and kept deliberately away from the mainstream of the advantages of the progress, are to be considered Dalits. Thus, understanding Dalit question in Indian context has a wider canvass of the unorganised and exploited people (Dalit) of the most backward regions and the organised and yet deprived people elsewhere in India who are the victims of exploitation and injustice and are yet to acquire social, economic and political strength. Does it not require a careful diagnosis which may lead to a logical proposition that may consolidate all Dalit forces in themselves and for themselves?

There was a general opinion in the Constituent Assembly with regard to 'equality of opportunity to all citizens' and to 'provision to be made for the entry of certain communities' [Government of India, 1994, Vol. VII-A, Pp. 1,002-71] so that, by enabling these communities to avail this right of equality and justice which they were denied for ages, they would join the mainstream. If Dalit question is that of inequality and exploitation, this involves broadly two dimensions: Whether they have been brought at least at the minimum satisfactory level of dignity till today when the country is celebrating the golden jubilee of the event of the transfer of power from the British colonial rule in 1947. This requires a stock taking exercise with regard to the socio-economic conditions of Dalits. And secondly, if they are yet to find their dignified place in the society, despite the so-called tall claims of development and of operating democratic government for such a long time as half a century [Grover, 1996, Vol. 5, Nos. 1 and 2, Pp. 31-41], whether 'this process of development' can ever provide them a status of equality and dignified life in such a society, so that they (Dalit) can identify themselves with the mainstream of progress and its advantages.

In agrarian society, land is an important indicator of economic and social status of a household and inequality in distribution of land is one of the evidences of inequality existing in such a society. Another important indicator could be the status of employment and earnings. Besides these, social status, which is also influenced heavily by these two indicators, has generally been overlooked while analysing inequality. Poor peasants constrained by lack of availability of capital and other infrastructure, remain further hard pressed because of smaller non-viable cultivable holdings yielding a few months' employment and insufficient earnings for their survival in an individualistic social order. Landless labour households are the worst affected in such a non-development syndrome where they, left in almost a starving situation, are bound to compromise by accepting depressed wage rate for their survival, in the absence of wider opportunity for employment and earnings. However, with the development of communication network, migration of labour has contributed significantly to improvement in their condition. Labour households and poor peasants are still to be emancipated from the bondage and usury exploitation.

According to the Census of India 1991, about one fourth of the population of India comprised of Dalit castes (16.5 per cent SCs and 8.1 per cent of STs) of which 36.1 per cent of SCs and 42 per cent of STs are classified in the category of main workforce against 32.8 per cent of non-Dalit castes [Prasad, 1997, p. 7]. 77 per cent of SC and 90 per cent of ST workforce are engaged in the primary sector of the economy whereas for the non-Dalit castes the proportion is 62.2 per cent [Prasad, 1997, p. 7]. The Census also reveals that 63.71 per cent of SC and 36.31 per cent of ST workforce in the primary sector are agricultural labour against 31.62 per cent of others. Out of total Dalit main workforce, 25.44 per cent of SCs and 54.5 per cent of STs are cultivators against 39.74 per cent of others [CSO, 1993]. Majority of holdings (86.6 per cent of the SCs, 64.8 per cent of the STs and 75.4 per cent of others) are of marginal and small farmers. Only 9.83 per cent and 13.06 per cent of the SCs and 3.85 per cent and 6.12 per cent of the STs are engaged in secondary and tertiary sectors, respectively [Prasad, 1997, p. 7]. Thus, it is evident from the above facts that higher percentage of population of Dalit *castes* depends on the primary sector, that too on agriculture. This also implies that Dalit *class* as outlined by Dalit Panthers comprised mainly the Dalit *caste* households on whom the rural economy sustains as the mainstay for 66.9 per cent of the total workforce of agricultural and allied activities [CMIE, 1993, p. 63].

This paper is intended to deal with some of the issues of inequality and exploitation of Dalit castes (particularly SCs) and class of north Bihar in the light of ground realities. With a limited scope of micro analysis, it is to focus on inequalities in terms of land and employment status, and exploitation reflected in depressed wage rate and usury network. The paper is divided in four sections besides this Introduction. The second and the third are devoted to highlighting the existing situation of inequality and exploitation, respectively, from which Dalit of the rural society of Bihar suffer. The fourth section will cover the macro view of emerging trend of Dalit mobilisation in Bihar followed by certain imperatives and alternatives to be looked into in the context of policy decisions and development process in the last section.

II - INEQUALITY

The question of inequalities among Dalits has generally been referred conventionally to Scheduled Groups (SGs) of SCs and STs. There are only a few studies so far known to the author of this paper which deal with this problem of inequalities in this context. Saggar and Pan used consumption expenditure pattern to measure inequalities and poverty among the SGs of four states in eastern India by using the NSS data. They also examined rural urban disparities between the SGs and others. By using Ginni, Theil and Atkinson coefficients, they found that the degree of inequality in monthly per capita consumption expenditure pattern for the SGs is considerably wider than that for others (i.e., non-SGs) in eastern India [Saggar and Pan, 1994, Pp. 567-74]. Findings of Nayak and Prasad are not different in this context [Nayak and Prasad, 1984, Pp. 1,205-13]. However, if one considers the definition of Dalits as described by Dalit Panthers, a wider horizon is opened to encompass the question of inequalities. This aspect seldom appears different from the general question of inequalities in a society. There may hardly be any disagreement that the members of the SCs and STs are, in fact, victims of a larger process which is affecting workers in the unorganised sector and the components of Dalit as a whole [Sharma, 1994, p. 46]. Thus, a general question of inequality needs to be addressed. It is so required because the fragmented approaches have been dividing Dalit force into different segments of castes, creeds, communities, and political parties with dominant considerations of the politics of vote banks, instead of uniting them for the larger goal of progress with social justice. Hence, the question of land ownership, employment status, earnings and consumption as also of social inequalities becomes of major importance.

a) Land Ownership

In agrarian economy of India, basic question of inequality can seldom be addressed if the issues of iniquitous distribution of land and aggravating unemployment are not brought into the mainstream of decisions. In Bihar, which is a state of the most poor, (i.e., about 54 per cent below the poverty line), the second most populous state of 96 millions, and a citadel of large landholdings, unequal distribution of land is the question of prime importance in examining inequalities in the society. It is obvious from Table 1, that distribution of operational holdings in Bihar is highly iniquitous. About 12 per cent of the holdings have 0.2 per cent of the area with an average size of 0.01 hectare which amounts to almost landless status. As high as 46 per cent of the holdings cover only 15 per cent of the operational land area and have less than 0.5 hectare of land, the average size of operational holdings being as low as 0.31 hectare. Another 19 per cent of the holdings have between 0.50 to 1.00 (i.e., an average 0.74 hectare) operational area per holding. Thus, as high as 77 per cent of the holdings are of marginal farmers possessing only 30 per cent of area. Adding small farmers (11.36 per cent) into this fold more than 88 per cent of holdings have 47 per cent of the area under operation. Remaining 53 per cent of operational land area is held by only 12 per cent of the medium and rich farmers, testifying to an extremely high concentration of land.

Table 1. Percentage Distribution of Size of Operational Holdings in Bihar (1985-86)

Size of Holding (in ha) (1)	Percentage of Holdings (2)	Percentage Area of Holdings (3)	Average Size of Holdings (in ha) (4)
Less than	11.60	0.19	0.01
0.02	46.35	15.09	0.31
0.02 - 0.50	18.95	15.02	0.74
0.50 - 1.00	11.36	17.15	1.41
1.00 - 2.00	8.14	23.79	2.73
2.00 - 4.00			
4.00 - 10.00	3.20	21.06	6.14
10.00 +	0.45	7.70	43.30

Source: *Bihar Through Figures, 1991*, Directorate of Statistics and Evaluation, Government of Bihar, Patna, Table 30, p. 84.

Inequality in distribution of land in Bihar is also reflected in illegal possession of over 50,000 acres of identified surplus land by the landlords, which is yet to be liberated for redistribution [Mukul, 1992, p. 1,780] However, 4,200 acres of surplus land area were announced by the Government of Bihar in the Legislative Assembly [Urmilesh, 1991, Pp. 57-60]. Apparently, iniquitous distribution of land hardly requires any statistical precision in order to confirm the inequality existing in agrarian society of Bihar.

In Gaya and Jehanabad districts of central Bihar which have been a flaming field for Dalit struggles, only 8 per cent and 4.5 per cent areas of operational holdings are accounted for by 15 and 9 per cent of SCs holdings, respectively. Further, 79 per cent of the SGs are agricultural labourers who depend completely on hiring out labour for their survival.

Studies on north Bihar [Diwakar, 1996; Prasad and Roger, 1983, Pp. 8-10] which employ the indicator of labour use for the identification of class in agrarian society, reveal that the highest concentration of per capita land owned and operated continues to be in the hands of large land owner-cum-non-cultivators and big peasants (LBP) dominated by upper and upper middle castes. The poor middle peasant (PMP) and agricultural labour (AGL) registered the lowest per capita land owned and operated. Non-cultivating agricultural labour (NCAL) has only homestead land area owned. Per capita land owned and operated by SC households has been reported less than that of middle peasant (MDP) households (Table 2).

Table 2. Per Capita Land Owned and Operated and Tenancy Structure Across Caste and Class in north Bihar during 1992-93

(Acre/HH)

Households	Total Land Owned	Cultivable Land Area Owned	Net Operated Area
(1)	(2)	(3)	(4)
A. Dalit			
I. SCs	0.18	0.17	0.28
II. Class			
a) AGL	0.13	0.12	0.21
b) NCAL	0.14	0.09	0.00
c) PMP	0.13	0.12	0.21
B. Non-Dalit			
a) MDP	0.26	0.23	0.35
b) LBP	0.60	0.47	0.49
Total	0.32	0.28	0.34

Notes: SCs = Scheduled Castes; AGL = Agricultural Labour; NCAL = Non-cultivating Agricultural Labour; PMP = Poor Middle Peasant; MDP = Middle Peasant; LBP = Large Non-cultivating Owner (Lessor) Big Peasant; HH = Household.
Source: Diwakar, 1996, Table 5.14, p. 152.

Thus, Dalits which consist of AGL, NCAL and PMP, of which the SCs are the major component, remained at lower end so far as land distribution is concerned. It is worth mentioning here that the SCs in the districts of north Bihar constitute more than 61 per cent of AGL, 65 per cent of NCAL, and 65.6 per cent of cultivating agricultural labour, about 54 per cent of PMP (Table 3), whereas MDP and LBP, from this social group, constitute only 20 per cent and 1.6 per cent, respectively. This also confirms that majority of the poor households come from the SCs. Hence Dalit question of inequality may better be addressed in class terms of the society than that of castes as it widens the coverage of poor households which is evident from the class-caste interaction (Table 3). However, Dalit castes which constitute major portion of Dalit class deserve priority in all practical sense.

Table 3. Percentage Distribution of Households by SC and Non-SC Categories of Caste and Class in north Bihar$

(per cent)

Class	Scheduled Castes	Non-Scheduled Castes	Total**
(1)	(2)	(3)	(4)
a) AGL*	61.21	38.79	40.14
i) NCAL*	65.38	34.39	22.43
ii) CAGL$	55.65	44.35	17.71
b) PMP*	53.68	46.32	19.43
c) MDP*	19.87	80.13	22.29
d) LBP*	1.56	98.44	18.14

Notes: $ This paper is done out of an empirical study of ten villages spread over in three districts of north Bihar, where households of STs do not exist. Therefore, they were not included in our sample of the study.
* Expanded forms as in Table 2. $ Cultivating AGL.
** 'Total' indicates the distribution of total households among different classes (a to d) which add upto 100, and taking total for particular class as 100 further seggregation has been worked out between SCs and Non-SCs. For example, Row a) has figure 40.14 in Column 4, i.e., total percentage of households in ten villages of three districts of north Bihar. Out of this total 40.14 per cent (considering them as 100 per cent), 61.21 per cent are SCs and remaining 38.79 per cent are Non-SCs.
Source: As in Table 2, p. 143.

b) Employment Status

Employment status of Dalit section of society in agriculture is another important factor invariably linked with the size of holding owned and operated. The area of landholdings of Dalits is not only smaller but also almost non-viable and confined only to a few per cent of their households. Majority of households are left with no option but to hire out their labour, irrespective of the wage rates. However, opportunity of either working on own farms or selling labour for others is still insufficient to sustain their livelihood beyond a certain point. Frequent occurrence of devastating flood and subsequent waterlogging in the low land area further narrow down their employment opportunity and aggravate their economic condition. It is evident from the facts (Table 4) that landless labourers are the worst sufferers from unemployment and the question of the SCs is not different significantly. In such a situation starvation is unavoidable and landless millions are left with no option but to migrate in order to maximise their employment opportunity. North Bihar is one of the regions, migration from where is recorded in most of the cases from agriculture to agriculture of other states with seasonal adjustments. However, migration for non-farm activities is also witnessed [Diwakar, 1996, Pp. 126-30].

Although participation of Dalit households in non-farm self-employment is higher than that of non-Dalit households, they lack means of production. For, 'land ownership status of the rural households not only determines the extent of their participation in non-farm activities (NFA), but it also influences the nature of NFA (viz. composition in self employment and *vis-a-vis* wage-paid labour) to which the rural households would decide to shift'. Moreover, 'occupational structure of poor households (viz., landless, submarginal and marginal farmers) was relatively more diversified than that of medium and large size farmers' [Thorat, 1993, p. 488; also see Chadha and Khurana, 1989, Pp. 2,617-623]. Thus, in non-farm wage employment in which mainly migrated labour force is engaged, there is no significant difference among Dalits and non-Dalits of the agrarian society of north Bihar. Main causes of migrations from this region mainly to Delhi, Punjab, Haryana, West Bengal, Maharashtra, etc., are reported as lack of employment opportunity, depressed wage rates, social repression and for supplementing income of the households [Diwakar, 1996].

Table 4. Labour Absorption in Agriculture and Non-Agriculture by Caste and Class in North Bihar

Description	Dalit				Non-Dalit	
	SCs*	AGL*	NCAL*	PMP*	MDP*	LBP*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
A. Labour-days in Agriculture:						
i) Per Worker	64.7	70.3	62.8	73.0	88.3	247.1
ii) Per Capita	29.8	30.9	29.0	31.4	25.4	35.1
iii) Per Acre Gross Cultivated Area (GCA)	92.8	133.1	0.0	125.3	48.6	55.5
B. Per Capita Person-days in Non-Agriculture						
Self Employment	53.9	35.4	37.3	41.7	44.7	42.4
	(13.4)	(9.6)	(7.1)	(14.7)	(29.9)	(22.8)
Wage Employment	44.2	44.5	45.7	42.8	44.9	39.8
	(50.9)	(53.7)	(51.9)	(55.2)	(59.2)	(52.8)
Total Employment	48.5	45.4	46.8	44.9	48.3	45.3
	(60.3)	(60.1)	(56.4)	(66.2)	(82.8)	(67.7)

Note: * Expanded forms as in Table 2. Figures in brackets indicate percentage distribution of households in non-agricultural activities.
Source: As in Table 2, p. 146 for A and p. 166 for B.

c) Earnings and Consumption

Inequality in land and in employment opportunity is reflected ultimately in the earnings of households. Per capita annual income of the Dalit and non-Dalit sections of households of north

Bihar displays that income of the former is significantly lower than that of the latter (Table 5). Earnings from self employment in agriculture added with wage employment remain lower *for Dalit households* than those of self employment of *non-Dalit households*. Findings of other sectors also confirm similar trend. It is also clear from the table in reference that per capita earnings of the non-Dalit section is also not enough to meet their consumption requirements. However, their reported requirement basket is wider than that of Dalits [Diwakar, 1996, Pp. 132-34]. Moreover, level of earnings of Dalits is undoubtedly worse than that of others. Thus, the question of inequality needs to be tackled effectively along with the question of development of the region as well.

Level of income decides pattern of consumption. However, minimum level of essential consumption may not have one to one correspondence with income. In such a situation, essential consumption is carried out through borrowing from money lenders. Deficient families, therefore, remain indebted in order to sustain themselves. In most of the cases, thus, consumption is reported more than income. As facts suggest (Table 5) consumption deficiency of essential items for Dalits including SCs remain more than 35 per cent. Thus, inequality in income reflected in deficiency of consumption of Dalits in north Bihar does not confirm the findings of

Table 5. Distribution of per Capita Annual Income and Pattern of Weekly Consumption by Caste and Class in north Bihar

(Rs)

Description	Dalit				Non-Dalit	
	SCs*	AGL*	NCAL*	PMP*	MDP*	LBP*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
A. Source of Income						
1. Agriculture:						
a) Self Employment	254	184	0	410	729	1,375
b) Wage Employment	234	282	349	177	0	0
Total	488	466	349	587	729	1,375
2. Animal Husbandry	129	125	100	205	183	340
3. Non-Agriculture:						
a) Self Employment	180	80	77	123	402	370
b) Wage Employment	705	733	791	669	1,201	1,404
Total	885	813	868	792	1,603	1,774
4. Remittance, Pension Gift and Others	179	417	297	516	785	657
5. Gross Earnings	1,681	1,821	1,614	2,100	3,300	4,146
6. Net Earnings	1,116	1,318	1,265	1,422	2,428	2,988
B. Weekly Consumption Pattern: Per Capita Value of Quantity (in Rs)						
1. Reported Requirement$	136	135	137	131	196	228
2. Consumed from:						
a) Own Produce	10	9	6	13	21	24
b) Market Purchased	74	69	68	71	113	114
3. Deficiency:						
a) Absolute	52	57	63	47	61	90
b) Percentage	38.2	42.2	46.6	35.9	31.1	39.5

Notes: * Expanded forms as in Table 2.
$ This figure is an average of the minimum requirements they reported to the author.
Source: Diwakar, 1996, Pp. 173 and 174 for A and B, respectively.

Saggar and Pan who observe: 'the consumption inequalities are lower in case of SC and ST population as compared to other households'. Saggar and Pan, 1994, p. 571. Although deficiency reported by MDP and LBP is higher, their basket of consumption includes not only the essentials but many luxury items also. Herein lies the qualitative difference between the consumption pattern of Dalits and non-Dalits which is a subject of further study and not covered under this paper.

d) Social Inequality

Inequality in land, employment, earnings and consumption is not perceived so effectively as social inequality, humiliating Dalits. The worst form of manifestation of feudal remnants is untouchability which prevails in rural areas, despite many constitutional provisions against these evils of society. As traditional identities of caste, creed and community are pervasive in rural areas, social inequality remains pronounced in the worst forms of untouchability. It is so deep rooted that even agricultural labourers are not free from this phenomenon. Agricultural labourers of different castes are discriminated by themselves on the basis of the hierarchy of castes. This persists even among different subsets of the SCs themselves. This shows how traditional identities of inequalities are ingrained in the psyche of Indian masses, not merely in upper and upper-middle castes. However, this is more pronounced among the upper castes, whose social and cultural hegemony still dominates the society and its customs. As compared to other people, those belonging to Scheduled Castes are the worst sufferers in the context of untouchability. So long as caste hierarchy will continue, laws may do little to remove this evil from the society. Untouchability in the case of SCs is manifested through various forms: separate bathing place at common village ponds, no access to temples, not to be allowed to sit, drink and eat together, etc. Modernisation and mechanisation have made a dent to narrow down this gap to some extent in urban settings and also among Dalits in the rest of the rural areas. However, none of the villages dominated by upper castes and middle castes was found free from the vice of untouchability in north Bihar [Diwakar, 1996, p. 208].

III - EXPLOITATION

Rent (tenancy, especially, sharecropping), usury extraction of surplus, and depressed wage rates via extra economic coercion in a labour bondage syndrome continue as main forms of surplus appropriation in pre-capitalist agrarian society [Prasad, 1989, p. 81]. Large landholders, thus, operate through a network of obligation, debt and informal bondage, and function as landlords, money lenders and the major employers. In this process, they acquire a position of strength to determine rents, interests and wages of labour. Such power together with other inherited socio-political status and linkages enables them to continue misappropriation of surplus in order to meet their requirements.

a) Sharecropping

Sharecropping form of tenancy is widely prevailing in Bihar causing suffering to poor peasant. Backward agriculture of north Bihar does not have a different situation. It is evident from Table 6 that net operated area of the SCs, AGL and PMP consists of around 80 per cent of leased-in area which forms more than 300 per cent of cultivable land owned by them. Unrecorded sharecropping tenancy to the extent of 50 per cent rent is pervasive. However, share in input is also found but only as an aberration. Seasonal tenancy is becoming popular form of tenancy in order to avoid risk of losing land occupancy right, particularly after the enactment of the *Bataidari* Act, 1990. Hence tenancy-at-will which is a remnant of the feudal agrarian relations continues even today, despite numerous legislations. Here also Dalits have been the net loser. Now the land is leased out only to the near and dear or the most reliable persons. In the case of a Dalit lessee, an advance bond is executed with a content that loanee is unable to pay the loan, hence, the land is leased out to enable the loanee to repay the loan. Thus, another form of bondage has been worked out to exercise control over Dalits. As there is no alternative to maintain subsistence, the Dalit is left with no option but to remain fettered in informal bondage and exploitation [Diwakar, 1996, Pp. 185, 103-06, 154].

b) Usury Extraction

In the syndrome of landlessness and unemployment in backward agriculture, moneylenders' network remains stronger to extract surplus through exorbitant rate of interests, as the poor peasants are bound to depend on borrowing for their survival. Migration has provided a kind of relief to improve their economic condition. However, the pace of appropriation of surplus has become faster particularly after inflow of remittance from the migration [Diwakar, 1996, Pp. 199-201]. Amount of per capita borrowings for production and consumption purposes of Dalits in north Bihar is reported on an average above rupees five hundred (Table 6). Rate of interest charged for production and consumption loans are exorbitantly higher (five times) than those of any public institution. The SC and NCAL borrowers have to pay the highest rate of interest as they generally lack collateral security, such as land, utensils and ornaments whereas PMP and AGL sections of Dalits have to pay slightly lower rate of interest. It reflects as to how miserably public financial institutions have failed to liberate the Dalits from the clutches of moneylenders. Middlemen nexus and commission network for sanctioning package of assistance for poverty eradication schemes by the government rather reinforced the usury extraction of surpluses from the Dalits, as in most of the cases the scheme not only remains unproductive and non-viable but also is sometimes liable to implicate even those who had not taken any assistance [Diwakar, 1996, Pp. 134-40 and 175-79]. As a result, at the time of repayment of loan, the Dalit is left with no option but to repay by trapping themselves into another circuit of debt from moneylenders as the last resort.

Table 6. Forms of Economic Exploitation of Dalit Castes and Class in north Bihar

Variable (1)	Scheduled Castes (2)	Agricultural Labour (3)	Non-cultivating Agricultural Labour (4)	Poor Middle Peasant (5)
1. Tenancy Structure				
Percentage of Area:				
a) Leased-in to Net Operated	73.40	80.73	0.00	81.54
b) Net-Operated to Cultivable Land Owned	287.82	346.64	0.00	342.62
2. Usury Exploitation				
i) Per Capita Borrowing in Rs from Moneylenders for -				
a) Production Loan	564.93	494.54	256.31	466.29
b) Consumption Loan	556.40	506.56	502.81	507.29
ii) Rate of Interest Charged for -				
a) Production Loan	69.64	63.91	70.24	63.22
b) Consumption Loan	62.97	62.17	63.91	60.16
3. Weighted Wage Rate (Rs/day)				
a) Male	15.1	14.1	14.1	14.2
b) Female	12.1	11.8	11.6	11.9
c) Combined	13.8	13.1	12.9	13.4
d) Minimum Wage Rate Fixed by the State Government	37.5			

Source: Diwakar, 1996, Pp. 154, 178 and 151 for Rows 1, 2 and 3, respectively.

c) Depressed Wage Rate

Despite the fixation of minimum wages through Acts by the government, Dalits are yet to receive this wage in rural areas of Bihar. Operationwise and genderwise differentials of wages are pervasive and depressed wages are of the worst form of exploitation. Wage rates varied from rupees five to twenty five a day. Weighted average rate of the wages prevailing in north Bihar agriculture are shown in Table 6, which brings out that these are quite lower than minimum wage rate which was fixed a decade earlier. Another study reveals that as many as 71 types of wages and 210 wage rates were prevailing in Bihar, ranging from paise 76 to Rs 16 per person per day [Prasad, 1989, p. 84].

Main reasons behind this depressed wage rate are perpetuating backward agriculture operating in exploitative semi-feudal agrarian relation, lack of employment opportunities and unorganised labour force of Dalits. As a result, even if labour asserts for higher wages employers take advantages of weak bargaining capacity of the labourers and deprive a set of locally available workforce of employment opportunities and get their work done at a lower rate from another set of labour force. Thus, the question of survival of Dalits forces them to accept depressed wage rate as, with a few exceptions, they had bitter experience when they had to face failure as a result of weak mobilisation against land owning employers. Scheduled caste labourers of Kusmaut village of Begusarai district of north Bihar is an example of many such villages and events prevailing in this region. It was reported by the Kusmaut villagers that when they organised themselves under communist leadership against depressed wage and refused to work in 1990, the landowner brought labourers from other villages for agricultural operations. Thus, labourers of the village lost opportunity to work even at depressed wage rate because of weak organisation and lack of solidarity among labourers in the surrounding villages of the district of Begusarai. Most of the times they have to suffer atrocities also.

d) Atrocities

The history of atrocities on Dalits dates back to the pre-colonial days and there is hardly any significant let-up in this non-economic coercion in most parts of the rural India even today. Oppression of Dalits in Bihar does not have any boundary. The Dalit of north Bihar is yet to emerge as a force to resist oppression. Even today their inhuman conditions and subordinate, enslaved status in the society have not changed significantly. However, some evidences with regard to refusal of undignified work have been found. Direct bondage and slavery of Dalit have got modified into informal bondage and benevolent exploitation to generate false sense of gratitude and loyalties. North Bihar does not have much evidence of cruel atrocities widely publicised in media in comparison to central Bihar, with a few exceptions. It is not because the level of atrocities and exploitation is lower but because the level of resistance remains at lower key and hence brute forms of atrocities are avoided by extraordinary tolerance of Dalits. Weakly organised resistance by Dalits, however, has been witnessed but brutal repression of such resistance has discouraged them to fight against injustice and exploitation, as is evident from the land struggle in Begusarai district where communist movement is now stagnating. [Diwakar, 1996, Pp. 212-13].

Contrary to this, central Bihar has been the flaming field of struggle. Resistance by Dalit has caused many causalities ranging from setting fire to huts to brutal murders and rapes. Studies on rural unrest and violence reveal that most of the atrocities are in retaliation, consequent upon refusal and resistance against injustice and exploitation. Resistance is, for instance, against non-payment of minimum wages, illegal capture of surplus land by the dominating castes and class, denial of irrigation rights, misappropriation of government funds by the middlemen nexus, denial of voting rights, social oppression - beating, abusing, sexual exploitation of women - police repression, etc., [Bharti, 1991; Prasad, 1989]. Resistance has invited heinous atrocities upon Dalits (in central Bihar) by the 'powerful among the rural oligarchy, mostly in league with the police and the administration, also by using their musclemen to perpetrate untold atrocities on those who dare resist them' [Prasad, 1989].

Before 1971, these incidents could not get publicity in the bourgeois press. However, atrocities of Ruparpur Chandawa and at Gahlaur and Chauri were so heinous that these could not be suppressed [Prasad, 1989]. Massacre at Belchi in 1972 was in continuity of this chain of atrocities. Tables 7 and 8 give brief account of the brutal atrocities which resulted sometimes in counter violence by Dalits also in self defence. It is clear from the tables that the landlords have been taking lives of Dalits and terrorising them through extra economic coercion in the society in order to appropriate surplus. Aberration apart, the SCs have been the main victims of these clashes. 'This clash of economic interests mixed with feudal caste ethos sometimes took the character of caste struggle but it was essentially related to the question of intensification of exploitation and the resistance to it' [Prasad, 1989]. In the syndrome of increasing backwardness and poverty, dominant castes and class continued to exploit.

Table 7. Record of Brutal Atrocities on Dalits in Bihar (I)

Year	Place		Organised Violence		
	District	Village	Killer Caste (Class)	Killed Caste (Class)	No. of Deaths
(1)	(2)	(3)	(4)	(5)	(6)
1971	Purnia	Ruparpur Chandwa	UPC (Landlord)	STs (PP)	36
1977	Patna	Belchhi	UMC (Landlord)	SCs (PP)	14
	Bhojpur	Bharampur	UPC (Landlord)	SCs (MDP)	4
1979	Rohtas	Samhauta	UPC (Landlord)	SCs (MDP)	4
	Bhojpur	Bajitpur	UMC (Landlord)	SCs (MDP)	3
	Bhojpur	Raghunathpur	UMC (Landlord)	SCs (MDP)	3
1980	Patna	Pipra	UMC (Landlord)	SCs (MDP)	14
	Jehanabad	Parasbigha	UPC (Landlord)	SCs (MDP)	11
1982	Rohtas	Ganini	SCs (PP)	UPC (Landlord)	6
1985	Munger	Laxmipur	UMC (MDP)	OMC (PP)	12
1986	Aurangabad	Ganini	UPC (Landlord)	SCs (PP)	12
	Jehanabad	Kansara(I)	UPC (Landlord)	SCs (Biri workers)	4
	Jehanabad	Kansara	UPC (Landlord)	SCs (PP)	11
1988	Jehanabad	Nonhi Nagwan	UPC (Landlord, Police)	SCs (PP)	23
	Jehanabad	Nonhi Nagwan	UPC & UMC (Landlord)	SCs (PP)	19
	Jehanabad	Demuha Khagari	UMC (Landlord)	SCs (PP)	11
	Jehanabad	Keoria Chatar	UMC (Landlord)	SCs (PP)	7
1989	Munger	Munger	UMC (MDP)	OMC (PMP)	7

Notes: UPC = Upper Castes, UMC = Upper Middle Castes, OMC = Other Middle Castes, PP = Poor Peasants. Other expanded forms as in Table 2.
Sources: i) Patnaik B.N., *Harijans' Franchise: An Alibi of Class Conflict* (Mimeograph), Harijan Study Centre, A.N.S. Institute of Social Studies, Patna, 1990, Pp. 34-35.
ii) Urmilesh, 1991, Pp. 79-115.

Resistance against it has led to increasing incidence of violence and counter violence which is obvious from Table 8 also. Recent carnage of Bathani Tola has crossed the limit of cruelty when the children and women of Dalits were not spared from the worst kind of brutality. What is happening in Bhojpur should not be dismissed in the pretext of an intrafight for dominance between two groups. This is basically a form of class struggle between Dalits and non-Dalits represented by Naxalites and private armies, respectively [*Filhal*, Vol. 2, No. 22, Pp. 4-10]. It is evident from Table 8 that out of 17 incidents, 12 were by non-Dalit Ranveer Sena which is mainly composed of upper and upper middle land owning castes and classes. It is also reflected that substantial protection to the lives of Dalits is yet to be ensured. When the lives are insecure, addressing to social dignity and economic questions, which are interrelated and interdependent to each other, remains far away from the reality. This is valid not only in the context of Bihar but on the wider horizon of India.

IV - MOBILISATION

Mobilisation is the process by which a group with a particular ideology is organised and acquires collective control over the resources needed for collective action in such a way that social force gets transformed into class in itself and then class for itself. But it is the basis of mobilisation which decides its superstructure which varies with respect to time and space. In agrarian society also, the determinants and variety of mobilisation differ significantly [Kannan, 1988, Pp. 19-23; Tilly, 1978, p. 7].

Sporadic mobilisation of Dalits in north Bihar has been witnessed from time to time but it is yet to emerge as a regular phenomenon and in well organised form to fight out exploitation and injustice, as it appears in central Bihar where the rural poor mobilised themselves mainly for wage and social dignity [Singh, 1995, Ch. IV]. This could be one of the reasons why the struggle has not surfaced in north Bihar. However, increasing scale of exploitation on economic, social and political fronts has culminated in resentment and resulted in upsurge of Dalits in some pockets of this regions also. Begusarai, Darbhanga and Madhubani districts of north Bihar which have been the focus of this study have experienced such upsurge on the issues of social dignity, land questions and undignified work. As a result land questions have got sharpened and protest against exploitation could elevate the social position of Dalits also to a certain extent.

Table 8. Record of Brutal Atrocities on Dalits in Bihar (II)

Date & Year (1)	Police Station (2)	Village (3)	Killer (4)	Party Affiliation of Killed (5)	No. of Deaths (6)
1. Nov. 24, '89	Tarari	Danvar Bihta	CPI (ML)	Others	5
2. Nov. 24, '89	Tarari	Danvar Bihta	Others	CPI (ML)	17
3. June 23, '91	Tarari	Dev Sahiara	Others	CPI (ML)	14
4. March 17, '94	Sahar	Narahi	Police	CPI (ML)	7
5. April 4, '95	Sandesh	Khopiara	Ranveer Sena	CPI (ML)	3
6. July 25, '95	Udvant Nagar	Sarathua	Ranveer Sena	CPI (ML)	6
7. August 5, '95	Krishna Garh	Nirpur	Ganga Sena & Ranveer Sena	CPI (ML)	6
8. August 5, '95	Garhani	Karnaul	Ranveer Sena	CPI (ML)	2
9. August 5, '95	Garhani	Karnaul	Ranveer Sena	CPI (ML)	4
10. August 5, '95	Sahar	Kaup	Ranveer Sena	CPI (ML)	2
11. February 7, '96	Charpokhari	Gandi	Ranveer Sena	CPI (ML)	4
12. March 9, '96	Chauri	Fitalpur	Ranveer Sena	CPI (ML)	3
13. April 22, '96	Sahar	Nonaur	Ranveer Sena	CPI (ML)	5
14. May 4, '96	Sahar	Narahi	CPI (ML)	Ranveer Sena	9
15. May 19, '96	Sahar	Narahi	Ranveer Sena	CPI (ML)	3
16. May 25, '96	Udvant Nagar	Yarath	Ranveer Sena	CPI (ML)	3
17. July 11, '96	Chauri	Bathani Tola	Ranveer Sena	CPI (ML)	19

Source: *Filhal* (Hindi Fortnightly), Vol. 2, No. 22, November 16, 1996, p. 9.

Land distribution has emerged as one of the basic achievements of social mobilisation in Begusarai and Madhubani districts of north Bihar. In the former district masses were mobilised under the leadership of Communist Party of India (CPI) right from 1948 onwards but land redistribution could be possible only in 1976 after launching land grabbing campaign in 1970. Madhubani also did not remain away from this effect. It witnessed a smaller but successful autonomous mobilisation, also in order to take possession of land distributed through Bhoodan. In the latter case of mobilisation, however, there was no ideological current. It was a direct grievance against owner farmers which mobilised them.

Large cultivable areas of surplus land under ceiling have, however, still been *sub judice*. In the areas where social mobilisation could not maintain its continuity, *sub judice* surplus land facilitated land owners to continue its possession for longer period consequent upon over-delay in judgment, whereas mobilisation of social force in other areas facilitated the beneficiary of land.

Mobilisation has brought a better condition of living, which is evident from a few more observations which are based on quantitative information given in Table 9. Intensity of share cropping (oral tenancy) in Begusarai is less than that in Darbhanga and Madhubani. Sharecropping is underestimated in Darbhanga and Madhubani where *Bataidari* Act 1990 has created a fear psychosis among the lessor and lesses as well, and therefore, social bondage dominates to the extent of under-estimation of tenancy. This is because of effective claim of *Bataidari*. Tenants of these regions, particularly Darbhanga and Madhubani, are mainly dependent on cultivation for their survival, in the absence of modernisation and diversification of agriculture. There is no such campaign from the government to implement the provisions made under the *Bataidari* Act 1990. However, when some of the tenants have claimed their rights over the land on which they have been operating for years together, situation has become panicky in lease market. Generally, land owners do not offer to operate land for more than a crop in order to avoid tenancy claim of *bataidars*. Sometimes they do not trust lessee and therefore withdraw land. As a result, land availability in the lease market has become conditional and thus informal mutual agreement is made beyond the legal frame of *Bataidari* Act. In most of the cases neither Lessee nor Lessor admits the phenomenon of *bataidari* in fear of losing their land or getting deprived of an opportunity to maximise their output and hence the means for livelihood. Therefore, either they execute a bond with a contract that lessees are unable to pay the loan that they have taken, and the land has been given not for sharecropping but for repayment of loan or the lessee assures supply of labour in the agricultrual operations and other services, including looking after the lessors' household requirements, if lessors stay out and are employed in service sector. All these forms of informal bondage exist to maintain social control over remnant feudal relations. Darbhanga and Madhubani districts are mainly the monocrop areas. Only those households lease out their land who either do not live at village or their tenants are their kith and kin and alike, so that the risk of *Bataidari* claim is minimised.

Despite the fact that mainly traditional tools and draught cattle are used for cultivation in north Bihar, in general, Begusarai registers modernization and commercialization in agriculture to a great extent. Productivity in terms of value of output is higher in Begusarai than in other two areas. Darbhanga's is lower because of water logging and flood problems, and Madhubani is yet to be equipped with irrigation facility.

Table 9. Indicators of Progress in north Bihar Agrarian Economy

Sl. No.	Indicators (1)	Begusarai (2)	Darbhanga (3)	Madhubani (4)
1.	Net Operated Area per Household (HH)	0.36	0.33	0.32
2.	Tenancy (% HH)			
	a) Leased-in	30.00	34.00	35.00
	b) Leased-out	6.20	7.32	14.00
3.	Agricultural Equipment (% HH)			
	a) Wooden Plough	6.00	31.00	46.00
	b) Drought Cattle	7.00	27.00	47.00
	c) Fodder Cutter	11.00	2.00	1.00
	d) Tubewell	16.00	7.00	1.00
	e) Traditional Tools	81.00	84.00	85.00
4.	Productivity (Value in Rs /Acre)	1,847.00	961.00	1,192.00
5.	Wage Rate (Rs / Day)	15.60	12.80	9.40
6.	Employment (Labour Days)			
	a) Agriculture-	67.60	52.30	44.00
	i) Family Labour	24.20	29.00	17.50
	ii) Hired-out Labour Days	43.40	23.30	26.50
	b) Non-Agriculture	220.91	286.90	255.90
	i) Self-Employment	81.50	47.50	44.10
	ii) Wage-Employment	139.40	239.40	211.80
7.	Institutional Loan (% HH)	30.00	6.00	16.00
8.	Literacy (% HH)	76.00	38.00	43.00

Source: Diwakar, 1996, Appendix Tables 5.4, 24, 25, 32 and Pp. 151, 154-155, 175.

Wage rate has got enhanced and working condition has turned marginally in favour of the worker to some extent in Begusarai where masses were mobilised and they protested against depressed wage. Wage difference between male and female for the similar operation in agriculture got reduced. However, even this higher wage rate is still very low with reference to even minimum wages prescribed by the government. Remaining two regions are paying yet lower wage rate. Employment in agriculture is very low in every location. Diversification of agricultural to non-agricultural activities is significant. Non-agricultural employment in Darbhanga and Madhubani is basically on account of out-migration but despite out-migration of labour and shortage of supply of labour in agriculture, the wage rate could not be enhanced. Social discrimination, repression, unpaid wage labour practices, etc., however do not appear so pervasive as they were in the past. Another significant outcome of mobilisation may be seen in terms of literacy which is near about double in comparison to other locations.

Coverage of institutional loan appears higher in Begusarai than in other districts. But it is still very low. It suggests that usury practice is *yet* to be weakened, due to leakage in the process of institutional loan and delay in disbursement.

Restoration of social dignity has been championed by the communist movement but with limited success, as Dalits are yet to get access to and acceptability in social functions, feasts and temples. It has been an unfortunate part of the reality that no substantial follow-up in terms of a comprehensive package of co-operative ventures and collective efforts could be introduced, in order to stmulate a process of sustainable development to consolidate their economic position. The first phase of the struggle, which could bring Dalits together, could not be sustained for further course of the struggle and thus a syndrome of despair prevails. As a result of weak and sporadic struggles, Dalit force was pulled back into the fold of the autonomous institution of caste and creed of semi-feudal ethos. Needless to say that unless their economic and social questions are addressed, mobilisation is to remain an uphill task. Moreover, the poor SCs are now more concerned with their social status and self-respect than with economic problems [Bhowmik, 1992] which are of an interdependent nature. Their problems and solutions need such articulation as they can identify themselves with.

The basic cause of land reforms through mobilisation got thwarted by the state repression in collusion with landowners and henceforth land reforms remained at lower key or almost non-functional, from implementation point of view. Violent struggles by the masses in the past retaliated by counter-productive repression of the state machinery, in order to terrorise the masses, created a sense of insecurity among the cadre of the communist movement, in the absence of strong protection strategy through an organised and armed wing to protect the cadres of the movement. Not only that the CPI is losing its ground in Begusarai, but there is in-fighting among the cadre also which has weakened the effort at social mobilisation. This area has already witnessed initial success through social mobilisation, but it lacks continuity to promote social justice and sustainable development process. This location may have better level of consciousness which may prove to be a material force to continue its process of social and economic progress. Darbhanga and Madhubani are badly stagnating in the syndrome of dependence and non-development, with some exceptions of mobilisation against social repression. However, one of the Naxalite organisations, which has been struggling for the last 25 years in central Bihar, Andhra Pradesh and West Bengal, has also broadened its base in north Bihar. Is it not a point of consideration that, in spite of heavy odds of state repression, this organisation is penetrating in the rural areas because of its pro-poor and pro-people activities such as its campaign for not allowing theft, robbery, liquor, rape, gambling, communal riots, etc., and because of its campaign for speeding up land redistribution to the tillers with a commitment to transfer full political power to peasant associations, holding people's courts, compelling teachers to be dutiful to attend schools in proper time, etc., and, thereby, winning support and becoming popular among the poor? [Kishore, 1996]. History supports the fact that grassroots constructive works have been effective measures to mobilise masses, expand network and communicate effectively with masses. Working out a strategy for mass mobilisation for a popular cause at its beginning and then changing it for radical transformation is an important message from *Maddur Dalit* women mobilisation, i.e., from *Women for Anti-liquor*, to *Women for Land.* Many such instances may be quoted to support this fact.

Exceptions apart, mushroom growth of non-governmental organisations has proved parasitic and created dependency syndrome. Process of parliamentary democracy in the hands of political parties has been generating false hopes, in order to blunt the masses and their consciousness of understanding of material conditions. This creates hurdles against the process, though a weak one, of consolidating as class in themselves. In consequence, they may hardly be transformed as class for themselves. The role of most of the left parties in parliamentary politics which should have geared up struggle for social change, equity and justice is not significantly different from that of others. The question of land reforms has almost lost its ground in their agenda of struggle. However, sometimes they discuss the question in their meetings for the sake of discussion. It has become difficult to differentiate left parties from other political parties, which serve as good servants of imperial masters who survive through exploitation of the neo-colonial countries of the world [Prasad, 1996; Ado, 1986; Lohia, 1963, p. 131; Gandhi, 1926, p. 348; Lenin, 1978, p. 78], such countries as got political independence *per se* but the former policies are continued in the interest of imperialism through compradore ruling class.

However, 'the revolutionary groups have been fairly successful in mobilising agricultural labourers, especially scheduled castes (Dalits) among them in central Bihar, but they have not at all been able to build an alliance with the peasantry, and the class unity of the agricultural labourers is itself weak and liable at times to be broken by the Dalit/backward caste divide' [D.N., 1988, p. 94]. Hope, therefore, lies in non-parliamentary revolutionary and unorganised force of Dalits. 'The problem of mobilising the poor stems from their increasing alienation from the product as both sharecropping and customary labour rights disappear in the development of capitalist agriculture. This material alienation prevents any opportunities for an autonomous, non-dependent economic existence (let alone actual accumulation), which in its turn inhibits both, the development of a consciousness and the formation of an organisation (such as a tenants' or labourers' union) which would challenge the system of dependence and the class of patrons (rich peasants cum capitalist farmers) opposed to the poor' [Wood, 1984, Pp. 343-60]. Thus, to organise them is an uphill task and without struggle their mobilisation has not been witnessed in history. There are a few brilliant examples in the history which suggest that only masses have the insight and idea to resolve the contradictions. Liberation of China from Japanse occupation is one of the examples in this context. The question is to listen, comprehend and practise them with necessary modifications in the light of experience in due course, if needed [Mao, Vol. 3, p. 119].

V - OPTIONS

It has been reflected that socio-economic condition of Dalit castes and class is hardly different among themselves. This gives a basis to derive that Dalit castes (SCs in this case) are, in fact, victims of a larger process of exploitation. So long as this process of misappropriation of surplus by non-Dalit castes and class continues, the condition of Dalits may not improve. Experience of the last fifty years suggests that expecting any miracle within this given system is to remain in a fool's paradise. Especially, in the syndrome of gradually intensifying economic reforms at the dictate of imperial power in which state intervention is weakening day by day and privatisation continues at ever increasing scale, there is no let-up to generate sustainable employment and hence the situation ahead is going to be worse. In the last fifty years, means of production could hardly be transferred effectively to the direct producers. As a result of increasing unemployment and exploitation, accumulated resentments will cover wider geographical area culminating into a chain of violence, counter violence and state repression. The question of liberating Dalits in system appears merely hoping against hope.

Mobilisation on caste and communal lines, irrespective of the provisions made in the Constitution, with a segmented approach will be counter productive in this caste ridden Indian society which may be thereby reinforced further. It may result into in-fighting among Dalits under different banners which may lead to hatred among inter- and intra-castes.

If at all there is social commitment for a just social order, it requires sincere efforts, on the one hand, towards effective land reforms and water management added with co-operative venture and collective ownership of the means of production and agro-based cottage and small industries for generating sustainable employment to improve their economic conditions on priority basis. And, on the other hand, there is an imperative to mobilise Dalit class to resist exploitation at the grassroots level and macro level as well. This is a hard task which non-Dalit class, particularly ruling class, will not permit as this will raise questions against its existence. Therefore, there does not seem any option that is left as an alternative to mass struggle [Prasad, 1995, Pp. 208-11]. The question, however, remains as to how mobilisation of masses can be made faster, in order to move towards building a just society. This needs proper understanding of the masses, also developing an efficient skill of communication by means of constructive works, and expanding grassroots network so that mass involvement may be possible. There may not be a strict division between the two. Strategy may vary according to adaptability of the region but, in broader sense, they may work in complementarity to each other.

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DISCUSSION ON ECONOMIC DRAIN FROM INDIA

COLONIAL ECONOMIC DRAIN FROM INDIA - A REAPPRAISAL

N.V. Sovani

The country was not economically drained during the British rule through remittances to England, mainly the Home Charges, as is generally believed. Some critical observations are made on an 'interesting' contribution to the debate by A.K. Banerji. This is done by addressing to three relevant questions: (1) Was the Indian economy in the latter half the nineteenth century, in reality, 'stagnant' and in what sense was its actually recorded rate of growth in that period slow? (2) In what sense were large annual payments abroad extraordinary, as compared to other countries? And (3) was there any deflationary effect and what was the economic mechanism through which it came into being?

1. One of the main preoccupations of the politicians and economists in India during the nineteenth century was the problem of economic drain from India because of the British rule. This preoccupation waned during the early years of the twentieth century. But during the 'twenties and thirties' of that century there was a growing flow of Marxist ideas in the country which led to the analyses of imperialism (*a la* Lenin) in India and in that the old drain theory found a revival and a new life. The drain got a new dimension as the quantitative expression of imperial tribute that India had to pay to Britain year after year. And in that light true patriotism came to be embodied in the holding of the twin doctrines of the economic drain and the opposition to the investment of foreign capital in the country [Chandra, 1990, p. XXXIV, and others]. That was regarded as the essence of anti-imperialism which was in turn the true definition of patriotism. Even after Independence the theory of the drain in the old times continues to haunt the students of India's economic history, though not in an oppressive way as in pre-Independence days. Recently a newer version of the same theme on a much broader basis and from a newer angle has been put forth. It is the intention in this note to discuss the same and to indicate why the new version is faulty and unsatisfactory. To give perspective to the following discussion a brief historical account of the drain theory is set down in the beginning.

2. The drain theory has a long history and its seeds go back to the chapter on the East India Company in Adam Smith's *Wealth of Nations* (1756). Raja Ram Mohan Roy (1820) is said to have hinted at it and it was stated more elaborately by Captain Wingate. Several writers like R.C. Dutt, M.G. Ranade, G.V. Joshi, Dadabhai Naoroji, etc., contributed their mite to the elaboration and discussion of that theory [Naoroji, 1901], though Ranade repudiated it publicly later (see below). The drain theory that held sway during the last quarter of the nineteenth century can be briefly put as follows:

3. Most versions of the drain theory identified the Home Charges, that were paid by the Government of India every year in London and which were shown as such in the budget of the Government of India, as the 'drain' or the tribute paid by India to Great Britain. It was also described as the 'salary of England for ruling India'. In some versions of the theory other items were added to the Home Charges. A typical statement of the 'drain' around the 1870s was as follows: [Ranade, 1995, Pp. 144-45].

Home Charges

1. Rs 1.50 crore for stores purchased in England for government work.
2. Rs 0.50 crore for salaries and establishment expenses of the India Office in London.
3. Rs 2.50 crore for army recruits and naval establishments
4. Rs 4.50 crore interest on India's debt contracted for meeting the expenses of conquering and defending India. This debt amounted to Rs 100 crore and of this about Rs 5-10 crore were owned by Indians who received the interest on it. The interest on the remaining Rs 90.00 crore was paid annually to Britishers who had lent them.

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5. Rs 1.50 crore as guaranteed interest at 5 per cent on a capital of about Rs 90 crore raised for the construction of the railways. The total interest on this came annually to Rs 4.50 crore. Deducting from it the profit that railways earned in India the net burden came to Rs 1.50 crore.

1 through 5 = total Rs 10.50 crore

6 Rs 5.50 crore: In India there were about 7,000 European officers and 60,000 European troops. There were 5,000 European civil officers and other traders and merchants. Altogether they were estimated to be 1.50 lakh. Their incomes were high and they transmitted their savings to England. It was difficult to estimate the total payments that India had to make on that account but a careful estimate which could not be considered as an overestimate could be put at Rs 5.50 crore.

The total of Items 1-6 comes to Rs 16.00 crore.

4. Those who advocated the 'drain' theory maintained that because of this payment India's economic development was threatened and until this was eliminated there could not be any hope of economic development. D. Naoroji, Digby, etc. went even further and averred that under the British rule India was getting poorer and poorer, i.e., per capita income in India was falling [Naoroji, 1901; Digby, 1901].

5. In discussing the 'drain theory' it must be emphasised at the beginning that a repudiation of it does not amount to saying that there was no exploitation of India under British rule. Great Britain derived innumerable direct and indirect advantages and benefits, both economic and non-economic, from her rule over India and an attempt at measuring them by converting them into monetary terms is futile. For example, under British rule India's balances of foreign exchange were kept in London with the Bank of England and till 1908 the latter did not pay any interest on it, though it lent these funds to the London banks at 2 per cent. Now that can be measured with a great deal of effort and can be legitimacy included in the so-called 'drain'. But this has not been done. Such were the direct benefits but there also other indirect benefits that were not measurable. The keeping of these balances in London and inducting them into the London money market enabled Great Britain to keep the interest rates prevailing there low and this benefitted England economically to a very considerable extent [de Cocco, 1974, Pp. 70-71]. But the nature of these benefits was such that they could not be translated into quantitative money terms or otherwise concretely estimated.

6. So any estimate of the so-called 'drain' could not have been complete or adequate. So is the above statement of it. Even that statement can be faulted on more than one grounds. In calling these payments 'drain or tribute' it was meant that for these payments abroad India received no recompense. They were unilateral and unrequited payments. This is not true of most of the six items that are included in the above statement. Item 1 of stores purchased in England and imported into India cannot be considered as unrequited payment as these goods were received in exchange. So too Items 4 and 5 cannot come under this category because they consisted of interest payments on debt contracted by India. Items 2 and 3 were direct consequences of British rule and could have been under any foreign rule. They could be disputed only on moral grounds, that England's conquest of India was immoral. But that is irrelevant in history.

7. Item 6 is totally irrelevant in considering 'drain' or 'tribute'. 'Such incomes and remittances represent the services of men and capital received by the economy. The suppliers of such services are entitled to be rewarded, the services have contributed variously to the economy and *such remittances are common to all countries*' (emphasis mine) [Banerji, 1982, p. 102, p. 106].

8. The fact is that each of these items and others can be endlessly discussed as to whether they constitute a tribute in the sense that they are unrequited payments or not without reaching a conclusion. The general sense about the anti-drain arguments can be perhaps summarised in the measured words of Ranade.

9. 'There are some people who think that as long as we have a heavy tribute to pay to England, which takes away nearly twenty crore of our surplus exports, we are doomed and can do nothing to help ourselves. This is, however,

hardly a fair or manly position to take up. A portion of the burden represents interest on moneys advanced to, or invested in, our country and so, far from complaining, we have reason to be thankful that we have a creditor who supplies our needs at such low rate of interest. Another portion represents the value of stores supplied to us like of which we cannot produce here. The remainder is alleged to be more or less necessary for the purposes of administration, defence and payment of pensions, and though there is good case for complaint that it is not all necessary, we should not forget the fact that we are enabled by reason of this British connection to levy an equivalent tribute from China by our opium monopoly. I would, therefore, not desire you to divert and waste your energies in fruitless discussion of this question of tribute, which had better be left to our politicians' [Ranade, 1906].

10. The problem of the drain did not attract much attention in the twentieth century and its revival to some extent by the leftist ideologies did not lead to any deeper than before examination of the various items included in the drain or the overall impact of the whole on the economic performance of India during the days of British Rule in the twentieth century. But some academicians continued to take interest in that theory and to consider the whole problem from a more comprehensive point of view. One such was A. K. Banerji, who laboured in his private capacity to complete the balance of payments chart of the Indian economy from 1858 to 1898 and from 1921 to 1939. He was fascinated by the 'drain' or the tribute theory and sought to discover the real significance behind that formulation. He wrote: '... if the concept of drain is at all to be of significance it cannot be limited to some kinds of transactions to the exclusion of others. ... Thus, instead of selecting certain payments abroad and labelling as drain, we may look at the entire spectrum of payments abroad out of incomes generated domestically (and of savings made from them), effected by the owners of such incomes and savings (or by their nominees) to defray their current or capital expenses abroad. Varying elements of drain... May inhere in such payments... In this alternative way of looking at the matter, drain, as classically understood will no doubt cease to occupy the centre of the stage. This may not be an unmitigated loss... The suggested formulation may help in some directions. In the writings so far there is not even an abstract treatment of the nature of the process by which export surpluses needed to finance the large outward remittances can be generated initially and then maintained, relentlessly for a sustained outflow of sizeable proportion of domestic incomes, year after year. Nor did these writings analyze the kinds of effects of such sizeable, sustained outflow on various indices of the state of the economy, especially domestic incomes, prices and employment, the resource allocation and investment considered both in the short run and in the somewhat longer run, and analyze with all the restrictions and qualifications as may be necessary in the first instance' [Banerji, 1982, Pp. 189-90]. Banerji suggested that it was nearly the same problem that was discussed in economic literature as the 'Transfer Problem' in respect of the war indemnities or reparations arising out of World War I.

11. He proceeded to do this in his subsequent book of 1995 [Banerji, 1995]. He had his calculations of the balance of payments of British India for the period 1858-1898 at current prices for this purpose. They had to be related to the national income of India for the same period. The comprehensive and reliable estimates of India's national income were those of Moni Mukherjee [1969] but they were expressed in fixed prices and related to the territory of the present day India. For relating the two they had to be reduced to a common base by adjusting for territory, population and prices. That by any consideration was a formidable task. But that did not stop Banerji and with commendable energy and persistence he accomplished the task of estimating the national income of British India at current prices from Moni Mukherjee's estimates by consulting him and receiving help from him. As the fruit of his efforts he presented the following table.

Table 1: Quinquennial Average Values of National Income and Outflow of Transfers (at Current Prices) of British India during 1873-74 - 1897-98

(Rs Million)

Quinquennial	National Income	Factor Income Sent out	Personal Remittances Sent out	3 as % of 2	(3)+(4) as % of (2)
(1)	(2)	(3)	(4)	(5)	(6)
1873-74 - 1877-78	5,458	214	42	3.91	4.68
1878-79 - 1882-83	6,136	261	46	4.25	5.00
1883-84 - 1887-88	6,296	308	42	4.89	5.56
1888-89 - 1893-94	7,019	367	54	5.23	6.00
1893-94 - 1897-98	7,593	454	64	5.72	6.56
25 years' average	6,503	317	50	4.57	5.64

Note: Factor incomes consist mostly of interest on foreign capital investment in the country.
Source: Banerji, 1995, p. 270.

12. Banerji comments: 'the quinquennial average of outward transfer of factor incomes doubled during 1873-78 to 1893-98, and weighted increasingly heavily on national income, from 3.91 per cent in the first period to 5.72 percent in the last. Together with personal remittances, the total transfers were 4.68 per cent of the national income in the first period, 6.56 per cent in the last and 5.64 per cent during the twenty five years as a whole. In absolute terms per capita income at current prices averaged Rs 28.21 during 1873-78 and Rs 35.26 during 1893-98 before the transfers. After transfers it fell by about 4.5 - 5 per cent in the early 1880s and by about 6.7 per cent in the mid-1890s. Incomes at constant prices are similarly affected when adjusted for transfers' [Banerji, 1995, Pp. 270-71].

13. 'The relentless transfers, about six per cent of the national income, must have exercised a strong secular deflationary impact, perhaps worsened by the depression of the 1880s and the 1890s'. [Banerji, 1995, p. 286].

14. The proposition is innovative and interesting though it needs to be carefully and critically examined. For this, it needs to be stated fully with all the antecedents that Banerji has in mind. Banerji begins with the statement that this study 'aims at deepening our understanding of the reasons why Indian economy stagnated during the late nineteenth century while elsewhere many national economies showed steady development' [Banerji, 1995, p. 17]. The usual cause of stagnation like the low level of capital investment in the economy does not hold in the light of the calculations of the national income and capital formation in that period. Banerji writes: 'a large country like India... could not have invested annually such meagre amounts as to produce an estimated growth of national income of less than 1 per cent per year during 1860-1900 when it received foreign capital for railways, irrigation, plantations, cotton and jute mills, communications, etc... which would also tend to raise domestic incomes... According to our tentative estimates gross annual investments seem to be above 7 per cent of the national income during 1873-98' [Banerji, 1995, p. 233]. This dimension of investment seemed too large for the estimates of the contemporary growth of national income - even if we allow for the possible reasons of such divergence [Banerji, 1995, p. 172]. 'The missing piece of the jigsaw between this magnitude (of capital investment) and the phenomenal stagnancy of the economy was the persistent and large transfers through the country's international accounts (apart from certain general factors which may have hindered the investment of these years from yielding high returns)' [Banerji, 1995, p. 233]. An examination of the country's external accounts reveals '(a) few unique and persistent features .. especially a continuous and substantial transfer of factor incomes and migrants' funds, in addition to sagging foreign earnings from exports in foreign exchange from the 1880s and their mainly agricultural composition' [Banerji, 1995, p. 197].

15. Regressive taxation, maintenance of a large expatriate administration, import intensive spending of government and the expatriate community, etc., all these would have rendered the emergence of a current account surplus more difficult and forced a greater degree of deflation and terms of trade losses to achieve the transfers, except to the extent that fall in exchange rate affected some exports and imports [Banerji, 1995, p. 261].

16. In the above, I think, I have stated fully and I hope, correctly the complete argument that Banerji urges in this connection. I can now proceed to an examination of the same. This can be done by raising three questions regarding it and answering them. To begin with the questions that originated the argument (1) whether the description of the Indian economy in the latter half the nineteenth century as 'stagnant' is correct or justified? Allied with it is the question: In what sense was the actually recorded rate of growth of the Indian economy in that period slow? The second question is with regard to one of the causes of this economic malaise. (2) In what sense was the noted feature of India's external accounts - large payments abroad annually - 'unique', as compared to other countries? The third question would be about economic consequences of this feature. (3) The deflationary effect of such transfers: whether there was a deflationary effect and what was the economic mechanism through which it came into being?

Question (1): The description of the Indian economy as 'stagnant' in the post-mutiny period would be appropriate if in the period before there was a satisfactory movement in it and that movement had came to stop in the later period. Alternatively, in what sense was the rate of progress of national income estimated for the period not par for the course? As regards the first possibility, there is no or little evidence to show that the Indian economy in the previous period was moving more vigorously than it did in the latter period. So if it was a 'stagnation' in the latter period then it was merely a continuance of the same state of affairs in the previous period. If, however, as I surmise, the economy was almost stagnant in the pre-mutiny period then during the latter period it seemed to show some signs of moving, some signs of life by moving forward, even though at a slow pace in which case it would be misleading to describe it as 'stagnant'. Now let us look at rates of increase of national income in India and other countries during the latter half of the nineteenth century. This is an exercise in historical retrospect with such limited data as are available. We can begin with the rates as estimated in regard to India.

17. According to the calculations of M. Mukherjee the long period rates of growth of national and per capita income were as follows: [Mukherjee, 1969, p. 65]

Table 2. Annual Rates of Increase of National and Per Capita Income in India

(at 1948-49 prices)

Period (1)	Total GDP (2)	Per capita (3)
1860-1900	0.90	0.40
1860-1950	1.15	0.45
1865-1885	1.78	1.23
1905-1925	1.73	1.29

Source: M. Mukherjee, 1969, p. 65.

18. Before proceeding to compare these with the rates of other countries, let me draw attention to the fact that they bury the myth, so beloved of all Indian economists and politicians of the nineteenth century, that the per capita income of India was continuously decreasing under the British rule. Moni Mukherjee's calculations show that not only the national income but also per capita income was increasing during this period and not declining. The long term rate of growth during 1865-1900 was 0.90 but it was 1.78 during 1865-85 and 1.73 during 1905-1925. The rate of increase of per capita income during 1860-1950 was 0.45. Let us compare them with the rates in other countries.

Table 3. Percentage Change per Decade of National Product at Constant Prices

Country (1)	Period (2)	Per cent (3)	Country (1)	Period (2)	Per cent (3)
UK	1860-69 to 1905-14	25.0	France	1851-70 to 1871-80	1.4
				1871-80 to 1881-90	24.3
Ireland & Eire	1860-69 to 1904-13	11.6		1881-90 to 1891-1900	21.4
				1891-1900 to 1901-10	19.9
France	1841-50 to 1901-10	18.6			
UK	1860-69 to 1870-79	18.4			
	1865-74 to 1875-84	21.1	Germany	1860-69 to 1870-79	35.4
	1870-74 to 1886-89	29.8		1865-74 to 1875-84	47.3
	1875-84 to 1885-94	37.6		1870-79 to 1880-89	51.2
	1880-89 to 1890-99	36.9		1875-84 to 1885-94	52.1
	1890-99 to 1900-09	19.2			
			Germany	1800-89 to 1890-99	40.8
Ireland	1870-76 to 1877-85	18.9		1890-99 to 1900-09	22.4
	1877-85 to 1885-93	7.0		1895-1900-04 to 1905-14	24.0
	1885-95 to 1894-1903	10.7			
	1894-1903 to 1904-13	15.9			
			Sweden	1861-68 to 1869-78	42.0
				1869-78 to 1879-88	24.6
Denmark	1870-78 to 1879-88	20.7		1879-88 to 1889-98	29.6
	1879-88 to 1889-98	32.2		1889-98 to 1899-1908	42.1
	1889-98 to 1899-1908	41.0			
Italy	1862-68 to 1869-78	8.8	United States	1870-79 to 1880-89	60.3
	1869-78 to 1879-88	10.0		1880-89 to 1890-99	26.4
	1829-88 to 1889-98	11.1		1890-99 to 1900-1909	47.5
	1889-99 to 1899-1908	25.2			
Japan	1878-87 to 1903-13	49.2	Canada	1870-79 to 1905-14	47.1

Source: Kuznets, 1956, p. 13.

19. It is obvious that the rates of growth of national income of countries in the northern hemisphere (especially in northwest Europe) were many times more than those in India. Japan also was in the same category. However, India's annual rates during 1865-85(1.78) and 1905-25 (1.78) were nearer and comparable with UK during 1860-79 (1.84) and 1890-1909 (1.92), with France during 1881-1900 (2.14) and during 1891-1910 (1.99), with Italy during 1862-98 (0.88, 1.00, 1.11) and with Ireland during 1870-1913 (1.89, 0.7, 1.07, 1.59).

20. In regard to these comparisons two further observations are in order. The first that these countries whose rates of growth were many times that of India had undergone the industrial revolution and the economic and social transformation that was associated with it. Some of them like U.S., Canada and Australia were new territories with thin population covers and rich natural endowments. It is not appropriate to compare an ancient country like India which had hardly moved beyond medieval times and to expect it to match rates of growth of advanced countries, unless we are naive enough to believe with Karl Marx that India would undergo an industrial revolution like European countries with the construction of railways there [Marx, 1853]!

21. The second observation is more relevant to what follows but since it has a relevance to the rates of growth it is adduced here. Attention needs to be drawn to the fact that France had recorded during 1871-1890 an annual rate of growth even higher than that of UK, though France had to pay during the period a heavy war indemnity to Germany arising out of the Franco-German war of 1870. The transfers did not seem to have adversely affected its rate of growth.

22. As a whole India's rate does appear to be low but not below par or particularly depressed. To expect a higher rate way beyond what it

actually was is to close our eyes to the realities in India in that period. Ranade described the Indian economy of those times in the following well-known words:

'The characteristics of our social life are the prevalence of status over contract, of combination over competition. Our habits of mind are conservative to a fault. The aptitude of climate and soil facilitate the production of raw materials. Labour is cheap and plentiful but unsteady, unthrifty and unskilled. Capital is scarce, immobile and unenterprising. Cooperation on a large scale of either capital or labour is unknown. Agriculture is the chief support of nearly the whole population and this agriculture is carried on under conditions of uncertain rainfall. Commerce and manufacture on a large scale are but recent importations, and all industry is carried on, as the system of petty farming, retail dealing, and job working by poor people on borrowed capital. There is almost complete absence of landed gentry or wealthy middle class. The land is a monopoly of the state. The desire for accumulation is weak, peace and security having been almost unknown over large areas till any length of time, till within the last century. Our laws and institutions favour the low standard of life and encourage subdivision and not concentration of wealth. The religious ideals of life condemn the ardent pursuit of wealth as a mistake to be avoided as far as possible. Stagnation and dependence, depression and poverty - these are written in broad characters on the face of the land and its people' [Ranade, 1906]. With this state of affairs it is not surprising that India did not record a higher rate of growth during that period. And incidentally, even after a century and in Independence, India has not shown even a comparable high rate in recent times as those of Japan, China and the Asian Tigers!

23. Banerji points out as noted previously, that the low rate of growth of national income during this period was not due to any inadequacy of capital investment. This is also not surprising because of the well-known lack of correlation between the level of capital investment and the rates of increase of national income in several countries. Kuznets observed long ago that it was not the amount or the level of capital investment in a country that determined the rate of increase of its national income but the way the capital invested was used [Kuznets, 1961]. And India is not known for the efficient use of her capital equipment then or now!

Question (2): So we came to the unique feature of India's external account which among other things is supposed to be the culprit in this connection. In examining how unique was this feature to India we have to examine the external accounts of different countries. Information in that regard, e.g., balance of payments, is very limited and available only in the case of a few countries. But we have to do with what is available. Besides the countries with whom India is to be compared in this regard would have to be comparable in size. I adduce below data in regard to three such countries, Australia, Canada and the U.S.A. Not only are they comparable in size with India but the first two were members of the British empire as India. The U.S.A. in that period was not a net capital exporting country.

The figures for Australia are as follows:

Table 4.

(million A. £)

Quinquennial (1)	GDP (Average for the Quinquennial (at Current Prices) (2)	Payments Abroad* (3)	(3) as % of (2) (4)
1871-75	105	3.1	2.8
1876-80	130	4.2	3.2
1881-85	164	6.5	3.9
1886-90	202	10.5	5.2
1891-95	171	11.2	6.5
1896-1900	181	11.3	6.1

Note: * includes: Public debt interest due to non-residents + Interest and dividends due to non-residents + Touring and departing immigrants
Source: Butlin, 1962.

24. Payments abroad increased from 2.8 per cent of the GDP in 1871-75 to 6.1 per cent in 1896-1900. The long term rate of increase of GDP at constant prices during the period 1871-90

seems to be around 3.5 per cent per year, a rate in the high range of countries with high rates as we have seen.

25. Similar figures for Canada are as follows:

Table 5. Gross National Product (Decennially) and the Net Interest and Dividends Paid Abroad During 1870-1920

(million $)

Year (1)	GDP (at Current Prices) (2)	Net Interest and Dividends Paid Abroad (3)	% of Col. 3 to Col. 2 (4)
1870	459	4	0.87
1880	581	16	2.75
1890	803	30	3.70
1900	1,057	32	3.03
1910	2,235	82	3.67
1920	5,529	166	3.00

Source: *Historical Statistics of Canada.*

A somewhat different set of figures and for a later period are given by John Stowel.

Table 6.

(million $)
(at current prices)

Year (1)	National Income (2)	Interest and Dividends Payments to Abroad (3)	% of Col. 3 to Col. 2 (4)
1903	1,140	41	3.6
1911	2,085	101	5.2
1913	2,359	137	5.6
1922	3,671	230	6.2
1928	5,269	275	5.1
1931	3,580	330	9.1
1937	4,368	302	6.5

Source: John Stowel, 1959, Pp. 338-345 at p. 252.

26. National income at constant prices increased annually at 4.7 percent during 1870-1914. The percentage of dividends and interest paid abroad increased from about 3 to 3.6 per cent during the same period. According to Stowel's figures it increased from 3.6 percent in 1903 to 6.2 percent in 1922.

27. In regard to the U.S.A. a rough calculation from such data as are available shows that the payments abroad on account of interest and dividends on foreign investments were 0.5 per cent of national income during 1874-1903 and 1.5 percent during 1896-1914 [Bureau of Census 1949, p. 15].

28. The three cases examined so far indicate that the feature of India's external account which Banerji feels is unique to it, is not so; it is a common feature in the external accounts of other countries also, that 'such remittances are common to all countries' as Banerji himself observed in his earlier book [1982] from which I have already quoted with my emphasis. In the three countries discussed here such payments did not seem to have affected their rates of increase of national income.

Question (3): India's payments abroad were not a unique feature of its external account; still these payments could have produced a deflationary effect and this could have lowered the rate of increase of national income. This as we have seen is Banerji's argument. Let us look into it.

29. A deflationary effect can result from a deliberate contraction of currency by a government leading to a fall in the general price level. Alternatively, a decline in prices due to, say, a fall in international prices, may lead to a contraction of currency and can be mistakenly described as a state of deflation. The situation in India during the post-mutiny period has to be examined from both the sides of money and prices.

30. But before doing that we have to have some clear idea as to what could have been the *modus operandi* of the external payments giving rise to the deflationary effects? In a passage already quoted Banerji has hinted that this was connected with the difficulty in the way of the emergence of a current account surplus, and forced a greater degree of deflation and terms of trade losses to achieve the transfers [Banerji, 1995, p. 261]. In effect, if the transfers were not there a greater surplus on current account would have emerged and this might have made possible a greater expansion of currency than actually took place. This potential lack of expansion of currency resulted in a deflationary effect.

31. If this is correct, it is a very tenuous argument and so difficult to verify. How to estimate the potential current account surplus that would have resulted in the absence of the obstacles in the way of its emergence, mentioned above. As it turns out, however, this is not necessary. It would have been if the expansion and contraction of money supply in India in that period was dependent on the surplus in the current account in terms of foreign exchange earnings.* But it was not India, though formally on the 'bimetallic' standard was in fact and operationally on the silver standard. The overwhelming proportion of the money in circulation in India consisted of rupee coins** which was almost a full-bodied silver coin. With mints open to unrestricted coinage of silver and the imports of silver (and gold) being totally free, it were the people of India who decided how much money they wanted. And as the available evidence shows they did not stint in the matter, helped by the continuous fall in the prices of silver since 1872. As the *Report of the Indian Currency Committee* (1893) noted 'The recent fall in silver coupled with the open mint has led India to import and earn more silver than she needs' [Government of India, 1893, para 32].

32. Net imports of silver during the period (1858-59 to 1892-93) were Rs 289 crore of which only 11 per cent was absorbed in the country as bullion and the rest found its way to the mints for coinage. The total new rupees coined during the period amounted to Rs 249 crore, Thus there was no contraction. Banerji has himself observed: '... we may not be far wrong to assume that the increase of national income at current prices at around 1.5 per cent a year during 1873-93 was associated with an increase of rupee coinage of about 1 per cent. The balance of the need for money was supplied by movements of the other components of money supply - notes, gold coins, bank and informal credit of British India - supplemented by coins and informal credit from traders in princely states' [Banerji, 1995, p. 223]. There is no trace of a deflationary influence from the side of money.

33. On the side of prices the tale is the same. From 1861 to 1865 the index of prices in India went up by 20 per cent due to the boom in cotton prices resulting from the American Civil War. A reaction set in and, except in 1876 and 1879 which were famine years, there was a continuous fall in prices till 1883. Because of the economic depression at that time the prices were falling everywhere in the world and the fall of prices in India was in sympathy with them rather than any internal causes. Prices in India began to move upwards from 1883 until 1893. With some fluctuations in subsequent years, they resumed their upward course, the index increasing from 106 in 1898 to 141 in 1912. During the latter period the general feeling was of inflation rather than deflation.

34. On both these counts there is little evidence of a deflationary influence in the economy during the period.

35. Banerji's proposition is not borne out by all these considerations discussed above.

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* It was only by an Act in 1898 that the Government of India was authorised to set aside in gold at the Bank of England the proceeds of the sales of Commercial Bills in London as a part of the Paper Currency Reserve which enabled Government of India to issue notes against this gold.

** Paper currency was a small part of the money in circulation. It was Rs 3.7 crore in 1863 and had increased to Rs 24.8 crore in 1898.

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PROF. SOVANI'S CRITIQUE: A RESPONSE

Arun Kumar Banerji

I thank the Editor for inviting me to comment on Prof. Sovani's article: 'Colonial Economic Drain from India - A Reappraisal'. I had earlier seen his review of my book of 1995 [Banerji, 1995] in this Journal [Sovani, 1995]. I chose to ignore it, as it ended on a sarcastic tone in the penultimate para. Now he has produced a full length article, 'exploring further in my slow way'. Regarding this article, and the request from him and the Editor, I have agreed to comment - though it is taking my limited time from the project I am now working on.

Sovani's laboured article has not disproved anything. It is a pity that, as a reviewer and a senior student of economics, when his whole thrust is on the external sector, he has not read the one chapter which should naturally have drawn his attention, '7. The External Account', in my 1995 book - not even its relevant sections. He has only picked out the Table on p. 270. I cannot but ascribe this to a disinclination to read anything in the least degree theoretical. Even Walter Bagehot called the home charges a 'tribute' (cf., Banerji, 1995, p. 250]. The discussion in this chapter traces the thinking on this matter from the classical writers right down to the post-Keynesian formulation of the theory of international adjustments, in non-technical words. I am sure all Sovani's doubts would have been removed, *if only he read what he was supposed to as a reviewer, and internalised it.* This formulation nowhere restricts it to reparations, which is only one variant of international transfers. But Sovani has chosen to steer clear of it. On p. 211 of my 1982 work, with which Sovani is familiar, I quoted Marcus Fleming, a brilliant economist with the IMF, 'While there may be no transfer problems in the provision of foreign aid, are there none in the servicing of foreign debt?' [Banerji, 1982] Before putting his pen to paper, Sovani should have pondered on this question.

No reader of my 1982 book, my article in *World Development*, October 1990, on 'Transfers Secular Deflation, and the Enigma of the Indian Economy, 1860-1900', and my 1995 book, and no reviewer till today has pronounced my formulations 'faulty and unsatisfactory'. But there had to be an exception and that is Sovani. Only, to me, his effort is futile.

The idea of applying to the Indian transfers (Government and Private) the theory of international trade came to me in 1980. I was then struggling with myself how to understand the *process* of remitting the so-called 'drain', and its *effects* on the economy, and how to put these in a deductive framework. I was then working on my 1982 book. Only *later* I consulted Bhabatosh Datta, a doyen among Indian economists and a profound student of economic history, and then James Meade, a British Nobel laureate. Both had pronounced my formulation correct. I could have ended my note here. But the article contains many errors and omissions. I cite the more glaring ones. [Para numbers are as in Sovani's article]

(i) Para 5 talks of interest on balances abroad. There was nothing like this in the last century.

(ii) Para 6 - I do not recollect saying 'no recompense' anywhere.

(iii) Para 9 - Ranade wants us to thank the British to lend us money at low rates. Even if he was ignorant of the facts, Sovani cannot be; he has read Chapter 3 in my 1982 book on Foreign Capital in Indian Railways, and the section on Railways in Chapter 6 of my 1995 book, and the revealing findings of the one and only Parliamentary Committee on Railways in India in the last century in this chapter, and in Appendix H. It seems from the quotation that Ranade was not disturbed by our doping the Chinese nation with opium for filthy lucre. Also, did the Indian producers gain from this [Banerji, 1995, Pp. 42-43].

(iv) Sovani quotes Pp. 189-90 of my 1982 book. Did he not see in the para immediately following my criticising the respected and late Y.S. Pandit for not asking how in the period he studied India effected a sustained transfer amounting to almost three times the net inflow of long term capital? This would have given Sovani the clue as to what I was investigating. I show in Table 7.3, p. 244 [Banerji, 1995], that, during 1858-98, the invisibles in the current account totalled £ 941 m. (outward payments), against net capital inflow of £ 456 m. (revised upward by me after 1982). But Sovani ignores it. In this period the net credit on merchandise and treasure was £ 493 m. [Banerji, 1995, p. 242].

(v) In Para 14, Sovani misreads me regarding investments. I never said they were not low. He repeats this in para 24. What I pointed out was that, for all the errors and omissions, the investment being what the estimate showed, it could not lead to income growing at the rate estimated by Mukherji. Hence, I brought in the transfers, after discussing a few other factors. (A reference to p. 172 [Banerji, 1995] in mid-para 14 is intriguing - what does it refer to?)

(vi) In para 16 Sovani questions the fact of stagnancy - if 0.4 per cent annual growth of per capita income during 1860-1900 is not stagnancy, I do not know what is. At that rate, incomes would double in 46 years! And that is the *all-India average*. Since incomes and wealth were very unequally distributed, it is likely that some millions among the 230 odd millions then in India were experiencing an actual decline of their incomes!

(vii) I for one would be happy if Sovani named even half-a-dozen Indian economists who believed that per capita income was 'continuously decreasing' under British rule (para 18), since he claims *all* Indian economists held this myth. Obviously he is an exception.

(viii) In para 21, Sovani states that during 1871-90 France had 'to pay a heavy war indemnity to Germany', and offers a guess, that these transfers 'did not seem to have adversely affected the rate of growth' - source please! Please see p. 212 of my 1982 book - French indemnity to Prussia was only during 1871-75, according to Fritz Machlup - partly paid by bullion, and German and French bank notes. I criticised Machlup there for ignoring the enormously larger Indian transfers, for very nearly two centuries. Sovani perhaps knows this.

(ix) In para 23, India is compared with Australia, Canada and USA as being comparable in size! Neither size, nor population, nor wealth nor the external transfers being swamped many time over by net inflow of capital qualify this comparison. Please see Viner's study of Canada [Viner, 1924].

(x) Para 29 on deflation totally misses the point. It need not mean falling prices - but a disappointingly slow growth, the economy being hemmed in by adverse forces. Surely one knows these forces.

I shall close now. *Even an undernourished child in a poor home grows - in height, weight, and some girth. Then look at a child in a reasonably well-to-do household. Shall we not compare the two, and look for the causes, or shall we rest content with the progress of the former child? This is the crux of the question.*

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DOCUMENTATION

The purpose of this section is to make available to the readers official documents such as reports of committees, commissions, working groups, task forces, etc., appointed by various ministries, departments, and agencies of central and state governments which are not readily accessible either because they are old, or because of the usual problems of acquiring governmental publications, or because they were printed but not published, or because they were not printed and remained in mimeographed form. It will be difficult and probably not worthwhile to publish the documents entirely. We shall publish only such parts of them as we think will interest our readers. The readers are requested to send their suggestions regarding official documents or parts thereof for inclusion in this section.

In the present section we publish:

1. Report of the Royal Commission on Indian Currency and Finance, 1926, (Chairman: E. Hilton Young), Published by the Central Publication Branch, Government of India,Calcutta, 1931, Sections I, II and IV.
2. Report of the University Education Commission, December 1948 - August 1949, Volume I, (Chairman: S. Radhakrishnan), Published by the Manager of Publications, Delhi, 1950, Chapter XIV.
3. Report of the Education Commission 1964-66, Education and National Development, Ministry of Education, Government of India, (Chairman: D.S. Kothari), Published by the Manager of Publications Delhi, 1966, Chapter XIX.

ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE, 1926: REPORT

I. INDIAN CURRENCY SYSTEM HISTORICAL RETROSPECT

1. The history of Indian currency is fully summarised in the Reports of the Herschell, Fowler, and Babington-Smith Committees, and the Chamberlain Commission, and it is brought up to date in the memoranda on the subject prepared by the Secretary to the Government of India in the Finance Department and the Financial Secretary of the India Office which are printed in an appendix* to this Report. The whole narrative need not be repeated here. Our historical retrospect will be confined to a brief review of those facts and events of the past which chiefly influence the present and serve as a guide to the future.

2. Before 1893 India had a mono-metallic system with silver as the standard of value. In order to avoid the embarrassing fluctuations in the rate of exchange with gold standard countries, which were caused by the fall in the price of silver, it was decided in 1893, in accordance with the recommendations of the Herschell Committee, to close the mints to the free coinage of silver. The stoppage of silver coinage was followed by an appreciation of the rupee, and by 1898 it had reached the level of 1*s*. 4*d*. The rupee remained unlimited legal tender, and was the standard of value for all internal transactions.

3. The policy adopted in 1893, by the closing of the mints to the free coinage of silver, had for its declared object the establishment of a gold standard for India, and the Fowler committee (appointed in 1898) was invited to consider how this object could best be secured. The relevant recommendation of the Committee was as follows:-

> Paragraph 54. 'We are in favour of making the British sovereign a legal tender and a current coin in India. We also consider that, at the same time, the Indian Mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian Branches of the Royal Mint. The result would be that, under identical conditions, the sovereign would be coined and would circulate both at home and in India. Looking forward as we do to the effective establishment in India of a gold standard and currency based on the principles of the free inflow and outflow of gold, we recommend these measures for adoption'.

4. This recommendation was accepted by the Secretary of State and the Government of India, and the effective establishment of a gold standard based on a gold currency thus became the recognised object of the Government of India and its advisers. But the Government's first attempt to introduce gold into circulation was not a success, and the Indian Currency system developed in the years that followed along lines different from those foreseen in 1898. Gold never became a substantial part of the circulation. Apart from small change, the internal currency consisted almost entirely of tokens, one printed on silver, the rupee, and the other on paper, the currency note. Their value was maintained at 1*s*. 4*d*. gold (there was during this period no difference between sterling and gold) by the offer of the Secretary of State to sell bills on India without limit of amount at 1*s*. $4\frac{1}{8}$*d*. and by sale of drafts on the Secretary of State on occasions when owing to temporary variations in the currents of trade, exchange tended to fall below the 1*s*. 4*d*. level. The latter process was not, however, the subject of a statutory obligation, nor was it in practice carried out as a matter of course; e.g., the Secretary of State had to be consulted before offers of reverse remittance were announced, and the Government of India never went so far as to undertake to offer sterling drafts in all circumstances. The standard thus evolved was commonly known as a gold exchange standard, although in truth, in so far as it amounted to a definite standard at all, it was a standard of sterling exchange. It was in operation at the beginning of the War in 1914.

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* Appendices Nos. 3 and 69 (not inserted).

5. The Chamberlain Commission, which was appointed in 1913 to enquire, among other things, whether the then existing practice in currency matters was conducive to the interests of India, reported *inter alia* as follows:-

> Para. 223. - (iv) 'The time has now arrived for a reconsideration of the ultimate goal of the Indian currency system. The belief of the Committee of 1898 was that a gold currency in active circulation is an essential condition of the maintenance of the gold standard in India, but the history of the last 15 years shows that the gold standard has been firmly secured without this condition.
>
> (v) It would not be to India's advantage to encourage an increased use of gold in the internal circulation.
>
> (vi) The people of India neither desire nor need any considerable amount of gold for circulation as currency, and the currency most generally suitable for the internal needs of India consists of rupees and notes.
>
> (vii) A mint for the coinage of gold is not needed for purposes of currency or exchange, but if Indian sentiment genuinely demands it, and the Government of India are prepared to incur the expense, there is no objection in principle to its establishment either from the Indian or from the Imperial standpoint: provided that the coin minted is the sovereign (or the half-sovereign); and it is pre-eminently a question in which Indian sentiment should prevail.
>
> (viii) If a mint for the coinage of gold is not established, refined gold should be received at the Bombay Mint in exchange for currency.
>
> (ix) The Government should continue to aim at giving the people the form of currency which they demand, whether rupees, notes, or gold, but the use of notes should be encouraged.
>
> (x) The essential point is that this internal currency should be supported for exchange purposes by a thoroughly adequate reserve of gold and sterling'.

Thus, in effect, the Chamberlain Commission, in its recommendations, abandoned the ideal of a gold standard based on a gold currency, and accepted in its place an exchange standard with an excrescent currency of sovereigns not essential to the working of the system. Owing to the outbreak of the War, no action was taken on these recommendations.

6. The War of 1914-18 put the currency system of India, in common with those of all other countries, to a severe test. The price of silver rose to unprecedented heights, and the material of the silver token became worth more than its face value. The Government found it difficult to continue their unlimited offer of rupees at the long-established rate. There was a keen demand for Indian exports, and there were exceptional disbursements to be made on behalf of the British Government. Internal currency had to be in some way provided, and it could no longer be provided on the old terms. Confronted with these difficulties, the authorities allowed the rupee, so long anchored at 1*s*. 4*d*., to break loose from its moorings and follow the course of silver prices. The rate of exchange accordingly rose rapidly until it reached 2*s*. 4*d*. (sterling) in December, 1919.

7. The Babington-Smith Committee was appointed in May, 1919, when the rate was 1*s*. 8*d*., 'to examine the effect of the War on the Indian Exchange and Currency system and practice. .... to consider whether, in the light of this experience and of possible future variations in the price of silver, modifications of system or practice may be required; to make recommendations as to .... the policy that should be pursued with a view to meeting the requirements of trade, to maintaining a satisfactory monetary circulation, and to ensuring a stable gold exchange standard'. These terms of reference precluded the Committee from considering alternative standards of currency. The Committee accordingly directed its attention to the re-establishment of stability under the then existing exchange standard, a stability which had suddenly been overthrown by the unprecedented

rise in the price of silver and by the divorce of sterling from gold. Taking into account the high range of silver prices and the importance of safeguarding the token character of the rupee they recommended the stabilisation of exchange at 2*s.* (gold). They further recommended that during periods of exchange weakness, the Government of India should be authorised to announce, without previous reference to the Secretary of State, their readiness to sell weekly a stated amount of reverse councils.

8. These recommendations were accepted by the Secretary of State. The publication of the Report, in February, 1920, coincided with a keen demand for remittances to London, and steps were at once taken to maintain the new exchange rate of 2*s.* gold recommended by the Committee by the offer of reverse councils at a rate founded on that ratio, allowance being made for the depreciation of sterling in terms of gold, as shown by the dollar-sterling exchange. The rates for reverse councils offered by the Government thus varied from 2*s.* $3\frac{29}{32}$*d.* (sterling) to 2*s.* $10\frac{29}{32}$*d.* (sterling). By the Indian Coinage Amendment Act (Act XXXVI of 1920) the sovereign was made legal tender at Rs 10. The attempt to hold the rate at 2*s.* gold was not successful; and the Government there-upon tried, with effect from the weekly sale on the 24th June, 1920, to maintain it at 2*s.* sterling. This attempt also failed, and was abandoned on the 28th September. The Government of India at this period were unable to contract currency in India at the pace at which world prices were falling. All they could do was to avoid further inflation and to effect some measure of contraction. This was insufficient to arrest the falling tide of exchange, which early in 1921 fell below the low level of 1*s.* 3*d.* sterling and 1*s.* gold. The 2*s.* ratio, passed in 1920, remained on the statute-book, and was ineffective for purposes of tender of gold to the currency office. By January, 1923, the tide had definitely turned; exchange recovered to 1*s.* 4*d.* sterling, and showed a general tendency to move upward. It reached the level of 1*s.* 6*d.* sterling in October 1924, at which time it was equivalent to about 1*s.* 4*d.* gold. From that time till March 1926, the upward tendency of exchange continued, but it was prevented from rising above 1*s.* 6*d.* by free purchases of sterling on the part of Government. Meanwhile sterling was restored to parity with gold about the middle of 1925 and during the 12 months which have since elapsed the rupee has been in the neighbourhood of 1*s.* 6*d.* gold.

9. Such are the salient features in the history of Indian currency to which attention is necessary in order clearly to apprehend the present, and reasonably to plan for the future. Our task is to examine whether any modifications are desirable in the conditions and practice which have come into being as a result of that process of gradual evolution which has been briefly described. For this purpose we must analyse the existing state of affairs both in its economic aspect, which is that of the standard of currency, and in its administrative aspect, which is that of the authority to control the currency. The object of the analysis is to determine the advantages of the existing system and its defects. When its characteristics have thus been distinguished we shall deal with the various remedies that might be applied for the removal of the defects, and we shall explain in full the proposals which we make for that purpose. In a further section of the report we shall deal with the question of the rate at which the rupee should be stabilised.

THE EXISTING SYSTEM

10. At the present time Indian currency consists of two kinds of token, paper notes and silver rupees, which are mutually convertible. The paper note is in form a promise by the Government of India to pay to the bearer on demand a specified number of rupees. The rupee is a silver coin 180 grains in weight and eleven-twelfths fine. In addition to these two kinds of token, the sovereign is by statute legal tender for Rs 10, and the Government is under an obligation to pay Rs 10, when sovereigns are presented for encashment. As, however, the price of gold is considerably

above this parity, the sovereign has disappeared from circulation and is not issued by or tendered to Government.

11. The value of both forms of token currency in relation to sterling is at present being maintained between the gold points corresponding to a gold parity of *1s. 6d.* No obligation has been assumed, but the Government as currency authority have freely purchased sterling when the rate has stood at 1*s.* $6\frac{13}{16}$*d.*, and recently, in April, 1926, authorised the Imperial Bank, to make an offer on their behalf to sell sterling at 1*s.* $5\frac{3}{4}$*d.* The stability of the gold value of the rupee is thus based upon nothing more substantial than a policy of the Government, and at present that policy can be found defined in no notification or undertaking by the Government. It has to be implied from the acts of the Government in relation to the currency, and those acts are subject to no statutory regulation or control.

RESERVES

12. For the purpose of maintaining the value of the token currency, the Government of India hold two reserves - the Paper Currency Reserve and the Gold Standard Reserve. The former is composed of the proceeds of the note issue and is held as a backing against the notes in circulation; the latter has been accumulated from the profits of the coinage of silver rupees and is designed primarily to maintain the external value of those coins. The permanent constitution of the Paper Currency Reserve provides for a holding of gold and silver metallic reserves of not less than 50 per cent of the total note circulation, and for the balance to be held in rupee and sterling securities. These permanent provisions have not yet become operative, and in the meanwhile the reserve is governed by transitory provisions under which the fiduciary portion is limited to a maximum of 100 crore of rupees, and the balance of the reserve is held in gold and silver coin and bullion. The actual constitution of this reserve on the 30th April, 1926,† was as follows:-

	Rs Crore
Silver coin	77.0
Silver bullion	7.7
Gold coin and bullion	22.3*
Rupee securities	57.1
Sterling securities	21.0*
	185.1

The Gold Standard Reserve at present amounts to £ 40,000,000. It is invested in British Treasury bills and other sterling securities.

Up till April, 1923, the interest on the investments in the Gold Standard Reserve was allocated to the purpose of strengthening the reserves. But since April, 1923, the interest has been credited to the revenues of the Government. Similarly, though the Paper Currency Act of 1920 provided that the interest derived from the securities in the Paper Currency Reserve should be applied to the strengthening of the reserves, this provision has never been put into operation.

FUNCTIONS OF RESERVES

13. There is no clear line of demarcation between the purposes for which the two reserves are respectively utilised, and a certain amount of overlapping is unavoidable owing to the interchangeability of rupees and notes. Thus, though the original function of the Paper Currency Reserve was to provide for the convertibility of notes into rupees, this function became of necessity supplemented by that of maintaining the external value of the notes. On the other hand, while the original function of the Gold Standard Reserve was to maintain the external value of the silver rupee, its use operates to some extent in maintenance of the external value of the notes.

† Throughout the Report, the references to the constitution of the Reserve are based upon the figures of 30th April 1926. There has been some variation since that date.

* Converted at the statutory rate of 2*s.* per rupee.

14. The maintenance of the convertibility of the note into silver rupees of the present fineness is only possible so long as the price of silver remains at such a figure that the bullion value of the rupee is not higher than its exchange value: that is, at the existing exchange value, the system would be upset if the price of silver were to rise above 48*d.* per standard ounce.

15. The efficiency of the reserves for the stabilisation of the external value of the rupee depends upon their maintenance at an adequate size, and upon their use in an effective manner. In principle they must be big enough to enable the currency authority to discharge the obligation to sell sterling to any amount required in return for notes and rupees, they must be used for that purpose promptly and without condition, and the sales must be accompanied by an equivalent contraction of domestic currency. In the Indian system these principles have not at all times been clearly recognised, and they are not now, and never have been, adequately supported and enforced by statutory provisions. There is no provision as to any organic relation between the total volume of token currency and the amount of the reserves. So far as the note issue is concerned, the statutes provide for no minimum percentage of gold or sterling securities being held in the reserve as cover against the notes. Nor is there any such fixed relation in regard to the other form of token currency - the silver rupees. The amount of the Gold Standard Reserve and the time and manner of its use are wholly within the discretion of the Government. The Gold Standard Reserve being built out of the profits of coinage, the amount actually carried to the reserve depends on the price at which the silver is purchased and not upon the liabilities outstanding. Any estimate of the amount of the outstanding rupee circulation is largely conjectural; it may be estimated† at 350 to 400 crore, against which the reserve held at present is only $53\frac{1}{3}$ crore.* It is true that a portion of the reserve against the silver rupee is carried in the coin itself (in the shape of its bullion value) but, it is admittedly difficult to make any immediate use of the metallic contents of the silver rupees at the time when those rupees are seeking conversion into sterling.

16. The automatic working of the exchange standard is thus not adequately provided for in India, and never has been. The fundamental basis of such a standard is provision for the expansion and contraction of the volume of currency. As the reserve rises or falls with a favourable or an adverse balance of trade, the currency must be automatically expanded or contracted, and the adjustment between internal and world prices maintained. Under the Indian system, contraction is not, and never has been, automatic. On occasions the obligation to buy sterling exchange has been discharged by the Government without any corresponding expansion of domestic currency: the purchases have in the first instance been made against Treasury balances and the currency expansion has been left to be effected subsequently at the discretion of the Government. More serious has been the absence of contraction on occasions when the currency authority has had to sell sterling exchange. The following table (prepared by the Controller of the Currency) shows how far the sales of reverse bills in the past have been accompanied by contraction of currency:-

Years (1)	Amount of reverses sold £ (2)	Rupees received for reverses sold Rs Lakh (3)	Amount of contraction effected Rs Lakh (4)
1907-8-9	8,058,000	12,16	12,16
1909-10	156,000	24	Nil
1914-15	8,707,000	13,16	1,05
1915-16	4,893,000	7,38	34
1918-19	5,315,000	7,08	Nil
1919-20-21	55,532,000	47,14	34,68

† As to this estimate, see further para 123 below.
* Converted at 1*s.* 6*d.* per rupee.

17. The action of Government in avoiding the full compensatory contraction on these occasions was no doubt due to some extent to fear that the monetary stringency which would have resulted from a full contraction would have dislocated business. There were, moreover, factors at work in 1920, - such as revenue deficits and a large amount of maturing debt - which made it then difficult to enforce greater contraction. However that may be, it is clear that on such occasions the exchange standard was not being applied, and possibly could not have been applied, in a normal manner. There was nothing in the Indian system to enforce such an application. In 1920 the consequences were disastrous. There must ever be danger of such disaster under a system which does not automatically enforce contraction of internal currency concurrently with the depletion of Reserves.

ELASTICITY

18. In a well-regulated system of currency, the volume of currency should vary freely in response to the varying requirements of trade. In India there is a seasonal variation due to the requirements for financing the movement of crops. In order to provide for them, the currency authority is allowed by statute to issue currency notes up to a maximum limit (at present amounting to Rs 12 crore) against hundis or internal bills of exchange. This provision has had beneficial effects in practice, but it is not in our opinion incapable of development and improvement in connection with a reorganisation of the bases of Indian currency. Any such provision depends for its proper operation on a plentiful supply of genuine trade bills. But in India, for a variety of reasons, most of the internal trade is financed by a system of cash credits or by the advance of money against demand promissory notes. It has, therefore, been found difficult to secure an adequate volume of bills as cover against the seasonal increase. As a result, the currency authority has on occasions been forced to provide for the needed elasticity by regulating its holding of sterling securities in the Reserve.

19. A well-regulated system should also provide for a measure of elasticity in the expansion of currency in case of great financial crisis, when the need for additional cash for the support of credit is urgent. In such case it is necessary to provide for an emergency issue of currency on special terms. The Indian system makes no express provision of the sort.

CONTROL OF CURRENCY AND CREDIT

20. A description of the present state of affairs and an account of its defects would be incomplete without a reference to the subject of co-ordination of control of currency and credit. India is perhaps the only country, among the great trading countries of the world, in which the Government exercises direct control over currency in general and over the note issue in particular. The banking and currency reserves of the country are thus separated, which diminishes their capacity to effect their specific purpose of stabilisation in the most economical and efficient manner. In other countries this is effected by concentrating these reserves at a Central Bank. Moreover, Government control of currency results in a dual control of monetary policy. The Government controls the currency. The credit situation is controlled, as far as it is controlled at all, by the Imperial Bank. With divided control, there is likelihood of divided counsels and failure to co-ordinate. In fact, difficulties have arisen owing to the existence of two distinct authorities controlling currency and credit. The only certain way to secure co-ordination is to concentrate the controls in one hand. In other countries the single controlling hand is that of a Central Bank.

A SUMMARY

21. To summarise the present state of affairs and its defects:-

1) The system is far from simple, and the basis of the stability of the rupee is not readily intelligible to the uninstructed public. The currency consists of two tokens in circulation, with the unnecessary excrescence of a third full-value coin which does not circulate at all. One form of token currency (into which there is an unlimited

obligation to convert the other) is highly expensive, and is liable to vanish if the price of silver rises above a certain level.

2) There is a cumbrous duplication of reserves, with an antiquated, and dangerous, division of responsibility for the control of credit and currency policy.

3) The system does not secure the automatic expansion and contraction of currency. Such movements are too wholly dependent on the will of the currency authority.

4) The system is inelastic. The utility of the provision for elasticity made on the recommendation of the Babington-Smith Committee is affected by the methods of financing Indian trade.

ESSENTIAL REQUIREMENTS

22. In consequence of these defects the system has not the confidence of the public. Some of the lack of confidence is the result of an exaggerated idea as to the extent to which any system of currency can be made to work automatically and independently of expert control. But when allowance has been made for all misunderstandings and misapprehensions, the fact remains that a large measure of distrust in the present system is justified by its imperfections. We recognise the skill with which successive generations of officers of Government have developed a system of currency in India, and the fidelity with which they have administered it. From 1898 to 1914 the exchange standard worked on the whole well in practice, except for certain failures of coordination due to the division of function between the Government of India and the India Office. But the evolution of the Indian economic system has now reached a stage when her currency can and should be placed upon a more simple, certain, and stable basis. A substantial measure of stability has been attained in the past. But certainty and simplicity have been lacking; and for a system of currency under Indian conditions and for the Indian people these two last qualities are as vitally necessary as the first. Without certainty and simplicity in the system, there will never in India be confidence in the stability of the currency, the uninstructed public will never be weaned from those uneconomic habits of hoarding and that disinclination to investment which are now the worst obstacles to the progress of the nation.

ALTERNATIVE PROPOSALS FOR REFORM

23. After exhaustive inquiry we have found that the possible methods by which the defects in the present system might be remedied may be reduced to three. These are:-

(i) the perfection of the sterling exchange standard,

(ii) the adoption of a gold exchange standard, and

(iii) the adoption of a gold standard proper, with or without a gold currency.

STERLING EXCHANGE STANDARD

24. We shall first consider the possibility of a perfected sterling exchange standard. The main defects in the existing system might be remedied by the following provisions:-

a) the Gold Standard Reserve and the Paper Currency Reserve might be amalgamated and reconstituted by statute as a single currency reserve under the control of one currency authority;

b) the currency authority might be required by statute to sell rupees for sterling without limit at the upper gold point of a fixed parity and similarly to sell sterling for rupees at the lower gold point of the same fixed parity.

25. By an appropriate structure built on this foundation, the Indian system might be developed into a perfected sterling exchange standard, both automatic and elastic in its contraction and expansion, and efficient to secure stability. Such a system would involve the least possible holding of metallic reserves, and would also be the most economical from the standpoint of the Indian taxpayer. But the system would have grave defects. The silver currency would still be subject to the threat implied in a rise in the price of silver. Were sterling once more to be divorced from gold, the rupee, being linked to sterling, would suffer a similar divorce. Should sterling become heavily depreciated, Indian prices would have to follow sterling prices to whatever heights the latter might

soar or, in the alternative, India would have to absorb some portion of such rise by raising her exchange. India has had experience of both these alternatives and the evils resulting from them are fresh in her memory. We do not indeed regard the possibility of sterling again becoming divorced from gold as of much practical likelihood: it is unlikely to happen except in a world-wide catastrophe that would upset almost all currency systems. Nevertheless, there is here a danger to be guarded against, which is real, however remote. There is undoubted disadvantage for India in dependence on the currency of a single country, however stable and firmly linked to gold. For these reasons, were the standard of India to be an exchange standard, it should undoubtedly be a gold exchange standard, and not a sterling exchange standard.

THE GOLD EXCHANGE STANDARD

26. A gold exchange standard could be secured by providing that the currency authority, instead of undertaking to buy and sell sterling, should undertake an obligation to buy and sell, at the upper and lower gold points, respectively, and to unlimited amounts, the currencies of any of the principal foreign countries with a gold standard.

27. In this case the rupee is not, in theory, directly stabilised in relation to gold. When the obligation is undertaken to buy and sell the currencies of the leading gold standard countries, the value of the rupee may even then vary in relation to gold if the currencies of *all* those countries cease to maintain that relation. In practice, the improbability (probability?) of such an event is extreme, and on this basis the stability of the rupee in relation to gold would be practically secured.

28. The imposition of a statutory obligation linking the rupee to the currency of more than one gold standard country, together with the other improvements suggested in the preceding paragraphs relating to the sterling exchange standard, would give to India a currency system which would have decided advantages in comparison with the present system. The internal currency would be convertible into international currency at the will of the holders and the rupee would thereby be stabilized; the reserves would be simplified; the parity with gold would be established by statute; and the system would be as automatic as, and no more subject to manipulation than, the systems of the United States of America or Great Britain.

OBJECTIONS TO A GOLD EXCHANGE STANDARD

29. There would still however be serious defects in the system. The danger would still impend that the silver rupee would vanish as soon as the price of silver rose above the melting point of the coin. Were that to happen, it would be necessary to stop the coinage of the silver rupee of the present fineness and weight and to replace it by small notes and coins of nickel or of less silver content. Under any exchange standard the note is internally convertible into silver rupees only and not into gold, and as long as that is the case, both of the courses referred to are open to such strong objections as to be practically impossible. The status of the rupee must not be adversely affected unless there is something better to take its place.

30. This defect, serious as it is from a technical aspect, is not the only or indeed the chief which leads us to the conclusion that a gold exchange standard is not the best for India under present conditions. The chief defect is that although it secures stability, it has not the simplicity which is essential to secure the confidence of public opinion for any currency system under present conditions in India. The mechanism of an exchange standard is refined. Some knowledge of economics is necessary to understand it. The right of convertibility upon which its stability is based is one of no direct concern to the general public, and it is unintelligible to the majority. The uninstructed see nothing tangible behind the token currency to assure its value. These characteristics, inherent in an exchange standard, make it unsuitable to the needs of a vast community or collection of communities, the various members of which are of all degrees of education, and indeed of all stages of civilisation. It is impossible also to ignore that for historical reasons, into which it is unnecessary to enter, there is a large body of public opinion in India that is suspicious

of the mechanism of an exchange standard. It is convinced that this mechanism can be manipulated and it fears that it may be manipulated in a manner inconsistent with Indian interests. We believe ourselves that this fear is groundless, and further, as we have stated already, that a pure exchange standard is no more and no less liable to manipulation than a gold standard; but that is not the opinion of the Indian public, and it is essential that whatever system of currency is adopted should be one that is capable of securing the confidence of Indian public opinion, after experience of its working.

31. The basic right of convertibility that supports an exchange standard is too abstract for the present conditions in India: the backing which it supplies for the token currency is too intangible and invisible. Without some backing more certain, simple, and solid, confidence in the stability of the currency will grow more slowly than it should, if it grows at all and progress in the habits of banking and investment will be delayed. A backing more certain, simple, and solid must be provided, nor can there be any doubt as to the best means of providing it. In the present state of its development Indian public opinion will have confidence in one thing only as solid enough for a backing for its currency, and that is gold. It requires some link that is real, and not only real but conspicuously visible, between the currency of the country and gold.

32. We are thus led to the conclusion that since a gold exchange standard cannot provide an efficient remedy for the defects of the existing system of Indian currency, to remedy those defects and to fortify popular confidence in the currency it is necessary to establish on a sure basis not only the external, but also the internal, convertibility of the token currency of the country into metallic gold.

A PROPOSED SCHEME FOR A GOLD CURRENCY

33. We will now consider the principal scheme for a gold standard and gold currency for India that was placed before us in evidence. We refer to the scheme set out in the memoranda and evidence of the officials of the Finance Department of the Government of India.* Under this scheme the silver rupee would cease to be legal tender, except for small amounts, after a period during which it would have been convertible into gold currency. The scheme would involve the attraction to India of a large additional amount of gold, required for currency and the conversion of hoards. It would also involve the sale of an amount of redundant silver equal to about thrice the world's production for a year. A summary of the scheme is contained in an annexe† (not inserted) to this Report.

34. The chief objects of the scheme are:

a) To eliminate the threat to the currency inherent in the possibility of a rise in the price of silver by dethroning the rupee from its position as a standard coin of unlimited legal tender, and thus also to enable the constitution of the reserves to be simplified by eliminating the silver therefrom: and
b) to cure the uneconomic habit of the people of holding the precious metals as a store of value, by assuring them, through the instrumentality of a gold currency, that the same measure which they mete out, in gold value, by way of investment or deposit with a bank, will be meted to them again, in gold value.

CRITICISM OF THE SCHEME

35. The points for consideration in connection with this scheme are:

i) the effect of the absorption by India of about £ 103 million of gold (in addition to normal absorption for the arts, hoards, etc.) on the supplies of credit, the rates of interest, and gold prices, throughout the world;
ii) the reliability of the estimates as to the amount of gold to be required and the time at which it would be required and the effect of any miscalculation under these heads on the Indian monetary situation;

* Appendices, Nos. 5 to 7 (not inserted).
† See page 410.

iii) the effect of the scheme on the silver market of the world and the amount which would be realised for the surplus silver;
iv) the effect of the proposals as to silver on the favourite store of value of the masses of the Indian population;
v) the effect on India of the probable reaction of these proposals on other silver-using countries, and especially on China; and
vi) the possibility of British and American co-operation in the matter of raising credits for the carrying through of the plan.

(i) Effect of India's Additional Demand for Gold

36. As regards the future of the gold market, divergent opinions have been expressed, and we have not found it possible to arrive at any definite conclusion as to the future relation between supply and demand. But the evidence which we have received, and in particular that from Professor Gustav Cassel and Mr. Joseph Kitchin, has convinced us that it would be most imprudent not to take into account the possibility, indeed the probability, that unless great economy is exercised in the use of gold, both in regard to its use as a commodity and its use as money, we have to look forward to a prolonged period of steadily falling commodity prices throughout the world.

37. In this connection it is necessary to take account of the requirements of various European and other countries whose financial equilibrium has been disturbed to a greater or less extent in consequence of the War. These countries are now trying to climb back gradually to the gold standard or the gold exchange standard. This aim requires for its fulfilment that there should be a certain amount of free gold available each year. Though signs are not wanting of a spirit of co-operation among the Central Banks towards effecting considerable economies in the international use of gold, there can be no doubt that a large extra demand from India would cause increased competition for gold among the countries of the world and lead to a substantial fall in gold prices and a substantial curtailment of credit. In their reaction on India as one unit in the world's trade system, a fall in gold prices and a curtailment of credit would on balance be unfavourable.

38. It has been suggested that the United States of America at present holds a far larger stock of gold than is required for monetary purposes, and that it would be an advantage to America and to the world generally if some of this redundant gold were to be absorbed by India. The authoritative evidence which we have received from the United States does not confirm this suggestion. We have been told that during last year the United States of America parted with about \$134 million of gold, and that the residuum of free gold available is not in excess of the probable requirements of other countries for purposes of reconstruction. Bearing in mind these requirements, and also the internal absorption of gold for the growing needs of the United States itself, we consider that the stock of 'free' gold in America cannot be regarded as superfluous and will probably be absorbed in a comparatively short time.

(ii) Uncertainty of the Estimates of the Amount and Time of Gold Demand

39. There is an element of uncertainty involved in the estimate of the amount of gold required for giving effect to the scheme, and it is impossible to be sure that the additional demand for gold could be spread over the period of 10 years.

40. Sufficient weight has not been given to the possibility of the replacement, as the result of the scheme, of a part of the note circulation by gold. If a high valued gold coin is introduced, the alternative of carrying a few gold coins would present some attractions and might make people prefer gold coin. In view of India's attitude towards gold, many who have been in the habit of using notes because paper is more convenient than silver rupees might turn to gold, which would be as convenient as rupees and more attractive than notes.

41. Gold coin is fully valued and the metal has a prestige of its own. We anticipate that the decline in the value of silver which would result from the proposals of the scheme relating to that metal would lead to a loss of confidence by the Indian people in the value of silver as a store of savings, and would, to that degree, induce an enlarged absorption of gold for non-monetary purposes, thus augmenting the gold requirements of the scheme.

42. It has been urged that if a gold currency is introduced into circulation, and if exchange is stabilized, the result would be so to increase confidence that gold would come out into circulation or come back into banking reserves from its present location in hoards. This effect might no doubt be produced by a development of banking and investment habits; but there is no very obvious reason why it should be produced by putting gold into circulation. The mere act of putting gold into circulation would not in our opinion develop the banking and investment habit.

43. The scheme involves the reduction of the proportion of gold and sterling securities in the Reserves to gross note circulation, during the transitional period, to 30 per cent. That proportion is in our opinion too low for safety, especially during a period of transition, and the external convertibility of the local currency would be seriously jeopardised if the transition to the new system should coincide with an unusually bad year for Indian exports. An increase in the proportion to a safe level during this period would mean an addition to the estimated gold requirements.

44. It would be imprudent to place much reliance on the anticipation that the initial demand for gold can be limited to Rs 50 crore. As soon as it became known, and it must become known at once, that the status of the rupee was threatened, holders would probably hasten to get rid of every rupee they could spare, and it is quite possible that the conversion of the whole amount of surplus rupees might thus have to be effected within a short time after the initiation of the scheme.

45. If the gold requirements should prove to be greater than is contemplated in scheme, or if the absorption could not be spread over a period of 10 years but progressed more rapidly, the effect would be to intensify the difficulties and to increase the expense of the project. Had the control of the currency meanwhile been transferred to a bank, such an intensification might involve a restriction of credit conditions in a manner and to a degree highly detrimental to the country's economic progress.

(iii) Effect on the Silver Market, and Possibility of Realising the Assumed price

46. The proposals as to silver involve even more risk than those as to gold and even greater disadvantages. To the extent of about two-thirds of the output, silver is not won for its own sake alone but either as a by-product of base metals or in conjunction with gold. If a substantial fall in the price of silver were to take place, any consequent curtailment of output would hardly affect the base metal product at all, would have more (but still little) influence on the production from gold ores, and would have its chief effect on silver ores only, i.e., on about one-third of the silver production. Even here the effect would be slower and smaller than might at first sight be expected, because the fall in price would not affect the richer mines, and the poorer mines would struggle to continue their production as long as possible. On the other hand, the increasing use of notes, not only in Europe but in the Far East, and the increasing resort to nickel and other base metals for subsidiary coinage, are factors which point to a distinct diminution in the demand for silver in future. The future of the silver market must at all times be a matter shrouded in obscurity: but, assuming no change in the status of the silver rupee, the best working hypothesis at present is that the production of silver in the next 10 years will be sufficient to meet the demand. But if, as contemplated in the scheme, silver were to be dethroned from its present position in India, and if for several years India were to meet her own normal demand for silver by melting rupees, we should not be surprised to see sliver fall much below the level of 24*d.*

assumed in the scheme, especially if, as is not improbable, the action of India had the effect of making other silver using countries follow suit.

47. The Government's policy in regard to gold would also react on the silver position. If the policy of introducing a gold currency were adopted, it would, by largely augmenting the already extensive demand for a metal that threatens to be in increasingly short supply, result in further depression of the gold price of silver.

(iv) Effect on Silver Hoards

48. The people of India have from time immemorial placed their trust in silver as the medium of exchange and as their store of value. They are deeply interested in the value of silver bullion, and it is contrary to their interests to depreciate it. The present proposals would inflict heavy losses on the poorer classes, who have put their savings into silver ornaments and who would find their stores of value depreciated by perhaps 50 per cent by the action of Government. It might well happen that, when it was seen that the price of silver was doomed to fall, there would be a tendency to change over from silver to gold in all parts of the world where silver is still held in large quantities as a store of value. It is proposed, in the scheme, to protect the value of the Indian holdings of silver against this inevitable depreciation by an import duty. Quite possibly, if it were a very heavy duty, it might protect them to some extent. If it did, it would put the Government of India under a moral obligation to maintain the price of silver for practically all time; for at the completion of the plan they would have sold nearly 700 million ounces of silver to the people at a price that was possibly double the world price. In our opinion, however, the effort to maintain the domestic price of silver irrespective of world price would probably fail. There has always been a considerable trade in silver over the land frontiers of India; and, apart from the difficulties of attempting to exclude a valuable metal from a wide frontier, if people who are accustomed to do that trade were to find that the value of silver in the outside world was very much below the value in India, it would probably affect confidence in the value of silver in India itself. In the case of an article which, like silver, is largely kept as a store of value, the influence of opinion on its value is extremely important.

(v) Effects on China

49. We have thought it desirable to treat separately the effects of these proposals on China. For a very long time the Chinese have been profoundly concerned at the uncertainty of silver as a basis of credit and as a measure of value in China. China is now the only great silver standard country. The countries with which the bulk of her trade is carried on are all either on the gold standard or on the gold exchange standard. The Chinese have for a long time been trying to find some means of substituting gold or some form of gold standard as the basis of their currency. This would probably have been done already but for the expense. The catastrophic fall in the price of silver in terms of gold, which would take place on the bare announcement that surplus silver equal to the world production for three years was for sale, would undoubtedly tend greatly to accelerate the movement in China, and might induce her immediately to set about securing the gold needed as a basis for instituting some form of gold exchange standard. That would in turn magnify the effect which had already been produced on silver by the Indian announcement, both by the reduction in demand and to some extent by the increased supply of silver that might come into the market. Moreover, the adoption of a gold standard by China would produce a further new demand on the world's gold supplies, and this demand would tend to appreciate gold and thus still further to depress the price of silver.

50. The reaction on Chinese trade would be by no means negligible. China is the greatest, and perhaps the only great, underdeveloped market left for the expansion of international trade. The effect of the announcement that the Indian Government proposed selling a large quantity of silver would be immediately to throw out of gear the exchange with China and for a time to paralyse the growing trade of the world with that country. India, apart from her direct trade with China,

which is a growing market for cotton and cotton goods, could not escape injury from a widespread dislocation of the kind.

(vi) Raising of the Required Credits

51. As regards the question of credits, we have had the benefit of the opinion and advice of the authorities best qualified to speak on the subject, namely, the Governor of the Bank of England and the Governor of the Federal Reserve Bank of New York. This is a matter in which Great Britain would not be able to act alone without the co-operation of America. Both authorities view the proposal with alarm on the grounds that it would retard the progress of monetary reconstruction in Europe, would upset world prices, and would be fundamentally harmful both to India and to the rest of the world. The United States is directly interested in the proposal through its mining industry, both in silver and in base metals. The currency authorities and bankers of the United States, with its great and traditional interest in silver, cannot be expected to support or encourage a proposal which would deal such a blow to the silver market as the addition to supplies of thrice the whole of the world's production for a year. In these circumstances, it appears that insuperable difficulties would be encountered in obtaining the necessary credits.

It must be pointed out that, before adopting this proposal, or any other proposal for the introduction of a gold currency into India, the authorities responsible for the scheme must be certain beyond the possibility of doubt that they can carry the scheme successfully through. For that purpose, they must be absolutely assumed that they can obtain the amount of gold required. The evidence which we have received prevents any such assurance. In view of that evidence, we are confident that those responsible for the scheme under consideration would be the first to recognise that the external conditions which are essential for the success of the scheme at the present time are not fulfilled.

Cost of the Scheme

52. Before concluding this section we must refer to the estimates of the cost of the scheme. Mr. Denning puts the cost at 1.65 crore per annum during the first five years and 1.12 crore thereafter. Sir Basil Blackett, by providing for a smaller holding of gold, would reduce the estimate to about two-thirds of a crore after the transitional period. These estimates are based on a proportion of 30 per cent gold and gold securities in the Reserve during the transition period, a figure which we have already criticized as unsafe. Moreover, these estimates take credit for the income to be derived from the conversion of redundant rupees into interest bearing securities. This income would become available ultimately whether the scheme were adopted or not. Mr. Kisch, after eliminating this credit, considers that, even on the basis of a 30 per cent proportion, the permanent loss to India as the result of the adoption of the scheme, to which he is strongly opposed, can scarcely fall short of 3 crore a year, besides an indefinite and incalculable amount depending on the extent to which the promotion of a gold circulation checks the future natural growth of the note issue. We have not attempted to recast any of these estimates on an arithmetical basis because we feel that from the nature of the case they must be largely conjectural and would be liable to be greatly exceeded owing to various causes which have been referred to above. All that is certain is that there is expense involved, and that it must be substantial.

UNACCEPTABILITY OF THE SCHEME

53. For all these reasons, the scheme fails to commend itself to us. In our opinion both the objects which the scheme has in view can be attained without any of the risks and disadvantages attendant on the scheme itself. Indeed, all that is claimed for it, in comparison with other proposals, is that it would attain the object of educating the Indian people in the habits of banking and investment, and out of the habit of hoarding, more speedily than any other scheme. As already indicated in paragraph 42, we do not think it would do so. The habit of hoarding the precious metals became ingrained in India

through centuries of war and rapine, and has persisted under British rule in spite of security of property and the introduction of improved currency and banking facilities. There are welcome signs that the deep-seated habit is beginning to yield to these influences, but we see no reason to believe that the introduction of a gold currency would accelerate the process. Even if it would do so, it seems to us that the acceleration would be gained at the cost of risks far too great to be justified. We may conjecture that the authors of the scheme would come to the same conclusion, after studying the evidence that we have received from the United States. Sir Basil Blackett comes to meet such a decision when, in the last paragraph of his memorandum, he says: 'If the effect of a decision to attempt the change to gold in India is going to be to upset the gold standard in the United States or in Europe, India has clearly nothing to gain by the attempt'. In our opinion, the attempt would be very likely to have the consequence to which he refers. It can only be accomplished at the cost of insecurity to these countries which have restored their monetary standards, and at the risk of delay to those countries which are now seeking with reasonable promise to do so, and this uncertainty and delay are likely to produce higher interest rates, business disturbance, and economic depression, with inevitable repercussions on the economic well-being and commercial prosperity of India.

We are unable therefore to recommend this scheme for adoption; and the reasons, stated above, which have led us to this conclusion, would lead us to reject any proposals which involved, by the limitation of the right of legal tender attached to the rupee, or by the sale of any large quantity of silver, any severe shock to the silver market, or which required the abrupt attraction to India by artificial expedients of any large additional amount of gold for circulation as currency.

II. A GOLD STANDARD FOR INDIA

54. We have already arrived at the conclusion that, in order to secure public confidence in India, the currency of the country must be linked with gold in a manner that is real and conspicuously visible, or, in other words, that it is necessary to establish a true gold standard. It should be understood that this does not necessarily imply a gold currency. It is possible to have a true gold standard under which the currency is based on gold both in reality and in a manner that is conspicuously visible, without putting gold into circulation. Having stated our reasons for rejecting the principal proposal for a gold standard with a gold currency that has been suggested to us, we proceed to deal with the method for the establishment of the gold standard which we recommend for adoption. The essence of the proposal which we proceed to develop is that the ordinary medium of circulation in India should remain as at present the currency note and the silver rupee, and that the stability of the currency in terms of gold should be secured by making the currency directly convertible into gold for all purposes, but that gold should not circulate as money. It *must* not circulate at first, and it *need* not circulate ever.

GOLD IN CIRCULATION

55. The economic reasons against putting gold into circulation are simple and clear. If the gold in the reserve is transferred to the circulation, the structure of credit that can be built on that reserve is *pro tanto* reduced. The greater the proportion of gold in circulation, the less the elasticity of the currency system. In a system that consists solely of gold coins, there can be no elasticity as the currency can only be increased by taking payment in gold for the balance of exports over imports and it can be decreased by the contrary process only. In short, the less the gold in circulation, the more will be the gold in the reserves and the greater the elasticity of the structure of credit that can be built thereon. Gold in circulation is of uncertain value for the support of exchange. In the words of the Chamberlain Commission's report, 'so long as the public have the option of making payments in tokens or in gold, it is the surplus tokens and not the gold in circulation which will seek an outlet at a time of weak exchange'.

56. The chief reason that has been advanced for the introduction of a gold currency is that it will give the people confidence in the stability of their currency. We incline to the opinion that the scheme which we outline below will do so much to establish confidence in the stability of the currency that whatever more would be gained in that direction by proceeding to put gold into circulation would not be worth the expense, the loss of elasticity, and the other serious disturbances which are likely to follow. It is agreed by many who advocate the introduction of a gold currency that a token currency of notes inconvertible for internal purposes is the ideal end towards which India should work. The scheme outlined below carries India very far along the road towards that end, and to add to it at some future time a gold currency would seem to us a useless return along a part of the road already traversed by the introduction of this system. It should, moreover, be observed that this scheme has advantage of setting up almost immediately a full gold standard whereas all other schemes put forward contemplate a postponement of this desirable condition for a decade or more.

57. Nevertheless, it should be recognised that the scheme which we recommend is equally appropriate, whether or not it be held that the gold standard should ultimately be supplemented by a gold currency, at some future time. Supposing that it be held that a gold currency should ultimately be introduced, there is, nevertheless, general agreement that it cannot be introduced at once. (The scheme referred to in paragraph 33 above is that which provides for its most rapid introduction. We have given reasons for believing that the rapidity of that scheme involves risks which ought not to be incurred.) The alternative is to make provision for the gradual strengthening of gold reserves in such a manner as to avoid disturbance to the world's gold and silver markets (with its inevitable injury to the finances of India and her prosperity in trade), whilst incurring the minimum of expense. The scheme outlined below does contemplate incidentally a gradual but substantial strengthening of gold reserves, at the maximum rate, and to the maximum extent, possible under present conditions without upsetting prices, incurring excessive expenses, or injuring Indian trade by unduly restricting credit.

It appears to us, in short, that if one desired that a gold currency should be introduced, it is thus that one would have to proceed. Our own view is that it would be unwise to contemplate the introduction of a gold currency under any conditions which we can foresee. But while holding that view, we have tried to see the matter from the point of view of those who do want a gold currency as soon as it can be had. It then appears to us that the following proposals open the door for the introduction of a gold currency at some future time, as wide as it is now possible to open it. They initiate a system which will leave the people of India perfectly free to decide, through their legislature, when that future time has come and a gold currency can be introduced without risk, whether or not they are prepared to confront its expense, and to disregard its other disadvantages. It is quite possible that when that time comes the people of India will no longer wish for a gold currency. The widespread desire for it which was expressed to us by so many witnesses in India appeared to be induced to some extent by the idea that gold was the most advanced form of currency and that other nations had long denied to India a privilege which they enjoyed and highly valued themselves. The War has taught Europe to do without gold coins and experience has aroused doubts of their utility. In returning to a gold standard the nations do not aim at a return to a gold currency. Great Britain has hitherto avoided the reintroduction of gold into circulation. In the United States, gold, which circulates in theory, does not circulate in practice. Some high authorities have expressed the view that the circulation of gold is beginning to be regarded as a sign of a backward civilisation. It may well be that, when India is in a position to introduce gold into circulation, she will reject it as an obsolete ideal, and will finally close the door which we now propose to leave ajar. But that is a matter which we have neither the desire nor the capacity to forejudge.

58. We fully recognise that the system which we recommend will impose upon the Indian currency authority an obligation far more serious than has ever been imposed upon it in the past. The obligation is to convert the currency, not merely into foreign exchange, but into metallic gold, and it is an obligation that is not, as formerly, conditional and circumscribed, but absolute and unlimited. Nevertheless this obligation does not differ in essentials from that which must be undertaken for the maintenance even of a sound exchange standard. It has been undertaken by every other country that has adopted an effective gold standard: and we have satisfied ourselves that the present resources in the form of reserves at the disposal of the Government of India are adequate to enable the currency authority safely to undertake the obligation, with the measures of fortification, and at the time, which we specify in our detailed recommendations.

THE GOLD BULLION STANDARD

59. The currency system which we recommend for the present needs of India may be described as a gold bullion standard. We propose that an obligation should be imposed by statute on the currency authority to buy and sell gold without limit at rates determined with reference to a fixed gold parity of the rupee but in quantities of not less than 400 fine ounces, no limitation being imposed as to the purpose for which the gold is required. The fulfilment by the currency authority of this obligation will secure the stability of the gold value of the rupee, and the stability of exchange within the gold points corresponding to the selected parity. Gold is thus made the standard of value. The rupee is linked to gold and not to sterling or to any other currency or group of currencies.

60. Since gold bars are to be given in exchange for notes or silver rupees, not for export only, but for any purpose, this is not an exchange standard; it is an absolute gold standard, the compensatory mechanism of the exchanges is preserved, because gold bars are not currency. When gold bars are given by the currency authority for notes or rupees, the currency is contracted, while, on the other hand, when gold bars are given to the currency authority for notes or rupees, the currency is expanded.

61. For the purposes of India this standard fulfils the essential condition, that it should be not stable only, but simple and certain. It provides the token currency with a right of convertibility that is intelligible to the uninstructed, and with a backing that is tangible and visible. In short, it has the characteristics necessary to inspire confidence in the Indian people, to promote the habits of banking and investment, and to discourage the habit of hoarding precious metals. The statutory obligation to buy and sell gold for rupees without limit at a prescribed parity for the first time in the history of the rupee will base it on gold firmly and in a manner that is conspicuously visible. It establishes the principle that gold is the standard of Indian currency at a fixed ratio, and that the currency authority admits it, and must maintain it.

62. There is no reason to suppose that the obligation to sell gold bars will result in any sudden or substantial drain on the reserves for the conversion of rupee hoards. Holders of such hoards can convert them into gold at present by buying that metal in the open market; and there is good reason to believe that large quantities of hoarded rupees have already been converted in this way. Since it is not proposed that the rupee should cease to be a legal tender, there will be no greater incentive to convert under the new system than there is now; and as will be observed from the detailed proposals below, it is not intended that gold should be given by the currency authority at a rate cheaper than the market rate.

63. Apart from the economic loss to India, the existence of a large volume of currency in hoards is a formidable obstacle to the efficient working of any currency system. As long as the circulating media of the country, whether silver coin or gold coin or notes, are employed for hoarding, the control of the currency authority over expansion and contraction of currency must be uncertain and there must be a possibility of fluctuation of prices wider than would be the case if all currency served

merely the purpose of a medium of exchange. The ebb and flow of currency in hoards with its resultant effects on the volume of active monetary circulation and consequently on prices introduces an element of uncertainty which makes the working of the discount policy by the currency authority very difficult and may stultify its efforts to control the money market. The mere substitution in the hoards of one kind of coin for another, both of which are legal tender, is no remedy at all for this evil. Under the system which we propose, that portion of the hoards which is held in the form of gold coin will be rendered largely innocuous by the step, which we recommend below, of withdrawing the legal tender quality of the sovereign and half-sovereign; while that which is in the form of silver will presumably in course of time, be robbed of its latent power to disturb internal prices and money rates by being replaced - if the process of conversion should continue - by gold bars; or preferably by other more economic forms of saving, such as the gold savings certificates referred to below. Hoards in the form of bars cannot be utilised for monetary purposes until they have been converted into legal tender money, and such addition to the currency can only be made by the currency authority which will, in exceptional circumstances, if the stability of the currency be thereby threatened, be prepared to deal with it through credit control.

BUYING AND SELLING RATES FOR GOLD

64. A sound gold standard postulates a statutory obligation upon the currency authority to buy and sell gold at a price equivalent to the par value of the monetary unit. This obligation constitutes the cardinal condition and compelling force for the maintenance of monetary stability in relation to gold, and, through gold, in relation to all monetary systems similarly linked to gold or gold exchanges. In the case of India there is a difficulty in the way of imposing on the currency authority an obligation in this simple form. India's demand for gold is not confined to monetary purposes. She has always absorbed gold and will probably continue to do so in important amounts for purely social uses. This factor has to be taken into account when determining the obligation of the currency authority to buy and sell gold. At present India's requirements for these purposes are satisfied by an admirably organised bullion market, which buys gold abroad, mainly through the banks, wherever it happens to be cheapest. The gold so bought is sold in India at prices which cover the cost of importing it, and no doubt leave a profit to the dealers. If the currency authority were compelled to sell gold at a price exactly corresponding to the par value of the rupee, it would at once become the cheapest market for gold in India in all ordinary circumstances, for a selling price so determined would take no account of the costs of importation nor of any deviation in the value of the currency from its gold parity. Apart from practically destroying the wholesale bullion market, the currency authority would inevitably become involved in the performance of a task which does not properly belong to it. Its primary duty of maintaining the value of the monetary unit at parity with gold would be made far more difficult, and the means, e.g., the rigorous and continuous contraction of credit, which it would have to employ to attract a steady flow of gold into its reserves, so as to enable it to meet the demand for both monetary and non-monetary gold, would be highly detrimental to the economic progress of the country. It is essential, therefore, that the conditions which are to govern the sale of gold by the currency authority should be so framed as to free it in normal circumstances from the task of supplying gold for non-monetary purposes. In order to achieve this object we propose to fix the selling prices of gold at rates which will enable the Bank to replenish its stock of gold without loss by importation from London. Thus, when exchange is at the upper gold point the selling price for delivery at Bombay will be the par value, i.e., Rs 21 as. 3 ps. 10 per tola. When exchange is below this point, the Bank will be required to sell gold for delivery in London or Bombay, at the option of the purchaser, at certain notified prices. These prices will be determined by the cost at which gold could be respectively purchased in London or laid down in Bombay from London when exchange is at the lower gold point. The option to the purchaser on the other hand to buy gold for delivery in London at the prices determined leaves the margin between the upper and lower gold points of the exchange as

narrow as it could be, having regard to the cost of moving gold to and from its most convenient gold centre. The form in which these obligations would be imposed on the Bank is set out in paragraph 150 below, and the method of computation employed is explained in Schedule 1 (not inserted).

REMOVAL OF THE LEGAL TENDER QUALITY OF THE SOVEREIGN

65. The obligation to sell gold bars for all purposes makes it impossible to have any gold coin as legal tender, or to mint gold for the public, unless and until the holding of gold in the reserves is big enough to make it possible to accept the obligations implied in the introduction of a gold currency, and it is decided that the introduction of such a currency is desirable. Otherwise the gold from the reserves might in certain circumstances pass into circulation without effecting any contraction in the currency and thus without fulfilling the essential purpose of securing the compensatory effect of the exchanges.

66. We, therefore, recommend that the legal tender quality of the sovereign and the half-sovereign should be removed. We do not apprehend any practical inconvenience from this proposal. Although these coins are legal tender under the Coinage Act, they have, owing to the existence of the 2*s*. rate in the statute book, long ceased to function as currency. In this connection it cannot be too clearly emphasised that as the sovereign and half-sovereign are fully valued coins, the cessation of their legal tender character does not involve any diminution in the real value of the coin in the country held as a store of value. In any notification which may be issued, of the buying price for gold, it should be explained that the price announced means so many rupees per full-weight sovereign.

If the currency be firmly stabilised in relation to gold, and be made directly convertible into gold, in accordance with our recommendations, we expect, as said, no undesirable consequences from the demonetisation of the sovereign, nor do we think that there should be any hesitation to sacrifice the shadow of an unnecessary, and in practice little used, gold coin of legal tender, in order to obtain the substance of a real gold standard. For the present, for the reasons stated in earlier passages of this report, a real gold standard with a gold currency is unattainable. The choice is between a real gold standard without a gold currency, and an exchange standard with an excrescent and unnecessary gold currency, which would only serve to disguise from the people of India the true basis of the stability of their currency. As between these two, every advantage in our opinion lies upon the side of the real gold standard that we recommend.

INTRODUCTION OF SAVINGS CERTIFICATES PAYABLE IN GOLD

67. The obligation specified in the preceding paragraphs to buy gold bars and to sell them in quantities of not less than 400 ounces, can in the beginning have only an indirect effect upon the people at large in establishing confidence in the currency. It is the bankers and bullion brokers who will make direct use of the provision. It is desirable, therefore, to find some further and more direct and visible means for bringing it home to the masses that gold is the standard of value of the rupee and that the one is convertible into the other. Such a means might, and we recommend that it should, be found in the offer by the Government 'on tap' of savings certificates, redeemable in three or five years, in legal tender money or gold at the option of the holder. They might be issued in denominations of one tola and integral number of tolas, and sold for legal tender money, rupees and notes, at a price which would give the holder an attractive yield in interest. It would add to the attractiveness of the certificates if the holders were given facilities to obtain payment therefor at any time during their currency at a discount reckoned at varying rates according to the date of encashment, but until the date of maturity it would be paid in legal tender currency and not in gold. Thus gold for delivery in three or five years would be sold at a substantial discount in relation to the cash price. As regards the relation between these certificates and the amount of the Reserve, the gold standard, of which this proposal is a useful auxiliary, and which it confirms, does no doubt necessitate a strengthening of the gold holding in the currency reserve, as proposed in paragraph 78 below.

68. The fear has been expressed that these certificates would have the undesirable effect of stimulating in India a fresh demand for gold. For the following reasons we are not of opinion that they would have any such effect. The offer of such certificates should constitute a powerful incentive to investment and a powerful antidote to hoarding. When his certificate matures, the holder of the maturing certificate will receive a striking demonstration of the advantages of investment and of the solidity of the gold basis of the rupee. It is legitimate to hope that the certificates will greatly assist in an ultimate solution of the problem of India's hoards. As soon as it has been established by experience as a certainty that gold is always forthcoming for the certificates on maturity, it is to be expected that there will be a gradual replacement of hoards by certificates. We should thus be achieving the chief benefit that is claimed for a gold currency without any of the risk, expense and inconvenience involved in putting gold into circulation. The benefits to be derived from the carrying out of this proposal need no emphasis. It will attract stores of wealth, great in the aggregate, and at present lying wastefully inert, to their right function of meet in the needs of India for productive capital expenditure.

CONVERTIBILITY OF NOTES INTO SILVER RUPEES

69. The termination of the anomalous provision by which one form of note, the paper note, is convertible by law into another form, the silver note, is an essential step in Indian currency reform which must be taken sooner or later. The existence of this obligation has in the past placed, and may conceivably again place, the currency system of the country completely at the mercy of the price of silver. Prudence clearly demands that such a risk, however remote, should be provided against if possible. Moreover, it entails keeping in the currency reserve, for purposes of internal convertibility, a large stock of silver which for external purposes is of little value. When most needed it is liable to prove incapable of realisation. No opportunity for the termination of this obligatory convertibility is likely to be so favourable as the present, when, by making the notes convertible into gold bars for all purposes, a more solid right of convertibility is attached to them than they have ever had since silver ceased to be a reliable standard of value. The obligation must continue in relation to the present currency notes so long as those notes remain in circulation, because the Government's promise to redeem them in rupees must be religiously kept. But we recommend that no legal obligation for conversion into silver rupees should attach to the new notes, the issue of which we propose below. At the same time we think it essential to provide facilities for the free exchange of notes for rupees so long as the people desire to obtain metallic rupees in exchange for them. The people of India have for centuries been habituated to a metallic currency, and to the use of the rupee as a standard coin, and although the one-rupee note has been readily accepted in many parts of the country, notably in the jute districts of Bengal, it would be unwise to attempt to force paper mainly upon the people against their will. Experience has shown that the best way to foster the use of currency notes is to establish confidence in their practical convertibility, and this confidence has been secured not so much by a legal obligation to encash them at currency offices as by making rupees readily available to the public at centres where there is a demand for them. The public are more concerned with practical facilities of this kind than with legal rights, and if these facilities were withdrawn or seriously curtailed, the growth of the note circulation would probably be checked, and the popularity of the new notes would be endangered. For these reasons we propose to make it incumbent on the currency authority (subject to the reservation indicated in paragraph 135 below) to make rupees and other coin ireely(?) available to the public in such quantities as may be required for circulation. Out recommendation implies that the coinage of silver rupees should be stopped for a long time to come, until the amount of silver rupees in circulation is reduced to the amount required for small change.

70. Since there are at present approximately Rs 85* crore of silver coin and bullion in the reserves and further quantities of rupees may be expected to come out of hoard in due course, a long period must elapse before there is any possibility of the slightest practical difficulty in converting any note that is presented into silver rupees. Practically, therefore, the change in the legal status of the notes should be quite unfelt, and before the present stock of rupees runs low the stabilisation of the rupee in terms of gold will have had time to establish confidence in the note issue on a basis too firm to be shaken.

71. The removal of the legal obligation to convert notes into silver coin will, we believe, secure the object† which the scheme for the dethronement of the rupee was largely designed to secure. In the first place, it enables silver to be eliminated as a predominant element from the reserves, which are thereby simplified and placed on a sounder basis than they have ever had before. Secondly it prepares the way for getting rid of the threat to the currency inherent in the possibility of a rise in the price of silver. To counter that threat, one must be in a position to replace silver rupees by some cheaper form of currency, and one cannot do so as long as the rupee is one of the bases of convertibility of the note. When no rupees have to be held to secure convertibility of notes, when the public have been made familiar with the use of the one-rupee note as recommended below, and when all forms of internal currency have been firmly based on gold, no insuperable difficulty will arise in meeting the situation should the silver rupee, owing to a rise in the price of silver above the 'rupee melting point', disappear from circulation.

ISSUES OF ONE RUPEE NOTES

72. We recommend that the currency authority should, concurrently with the first issue of notes of the new status, re-introduce one-rupee notes, which should be full legal tender and which, like other notes of the new status, should not be convertible by law into silver rupees. In spite of the fact that the issue of one-rupee notes may retard the absorption of the surplus silver rupees now in the Reserve, we consider it worth while incurring such retardation in order to popularise the use of notes, and to prepare the way for dealing with such an emergency as a rise in the price of silver above the melting point of the rupee. The alleged comparative expense of small notes seems a consideration that is negligible in comparison with these advantages. We do not recommend the re-introduction of $2\frac{1}{2}$ rupee notes.

CONVERTIBILITY OF OTHER NOTES INTO LEGAL TENDER MONEY

73. When the present legal right to obtain silver rupees in exchange for notes is withdrawn, it will be necessary to give the public a right to obtain change for the notes in some other form; and we propose to impose a statutory obligation on the currency authority to convert all notes, other than the one-rupee note, on demand into legal tender money, i.e., into notes of smaller denominations or silver rupees at the option of the currency authority. This statutory provision would in form leave it optional with the currency authority to determine the form of legal tender money to be supplied, but as explained elsewhere we propose to ensure that all reasonable demands of the public for metallic currency shall be met in practice.

74. We are wholly opposed to any alteration in the legal tender character of the silver rupee. The reasons which have been urged for the withdrawal of its legal tender character are overcome, in so far as they are valid, by the above provisions.

UNIFICATION OF THE PAPER CURRENCY AND THE GOLD STANDARD RESERVES

75. Experience has shown that it is impossible to discriminate scientifically between the purposes for which the Paper Currency and Gold Standard Reserves are maintained. As indicated above, the Paper Currency Reserve has to be used in some measure to support exchange and the Gold Standard Reserve has to be used in some measure to secure the external convertibility of

* See first footnote on page 330 (i.e., footnote to para 12).

† See para. 34 (a)

the note. But at present the further factor of the legal convertibility of the note into internal currency gives a special character to the Paper Currency Reserve. With the removal of the latter difficulty by our proposals in the preceding paragraphs, the way will be clear for the amalgamation of the two Reserves, a step which will assimilate the Indian system to other currency systems. The combined Reserve will then be simpler and more intelligible to the public, and can be made more efficient in its working.

COMPOSITION OF THE COMBINED RESERVE

76. We shall discuss our proposals as to the constitution and working of the combined Reserve more fully in a later section of the Report. We shall refer to them here in a generalised form in so far as it is essential to bring out the principles of the proposed system.

77. We propose, in the first place, that the proportions and composition of the combined Reserve should be fixed by statute. This is a provision essential to any currency system in order to secure the automatic expansion and contraction of the currency and the compensatory effect of the exchanges, in accordance with the needs of the country. The lack of any such provision in the case of the Gold Standard Reserve was the chief weakness in the pre-War system and was responsible for its more conspicuous failures.

78. We next propose that it should be laid down that gold and gold securities should form not less than 40 per cent of the Reserve. In view of the nature and extent of the obligations with regard to the provision of gold which we propose should be placed on the currency authority, that authority should strive to work to a reserve ratio of from 50 to 60 per cent. In the event of the proposed gold savings certificates proving a popular form of investment, the possible demands for gold by Government for payment of these certificates on maturity would no doubt necessitate a further strengthening of the gold holding in the Reserve, but to what extent experience alone can show. The holding of gold, which now stands at about 12.8 per cent, should be raised to 20 per cent as soon as possible, and in any case in not more than 5 years, and to 25 per cent in 10 years, with a minimum of Rs 30 crore from the outset. This would give a minimum of about Rs 60 crore after 10 years on the basis of the present circulation. During this period no favourable opportunity of fortifying the gold holding in the Reserve should be allowed to escape.

79. This fortification of the Reserve is needed to secure confidence in the note in view of the new obligations proposed in paragraph 59 above and the new status of the note proposed in paragraph 141 (not inserted). It should be made in any case, whether or not it be held that the scheme now proposed should ultimately be supplemented by a gold currency. Even if it be held, that there should ultimately be a gold currency, these provisions ensure that a beginning be made with the accumulation of an additional gold holding with the minimum of risk and expense and in such a manner as to cause the least possible disturbance to the world's gold and silver markets, with their inevitable repercussions on India and on the finances of India.

80. Silver reserves are ordinarily out of place in a gold standard system. But in India, silver coin forms a large proportion of the total circulation. There is a seasonal ebb-and-flow of considerable dimensions in this form of currency, and it is necessary to hold a considerable quantity of rupees in the Reserve to meet genuine demands for purposes of circulation. With the growing use of one-rupee notes these demands will, we hope, be reduced. In any case the present stock of rupees is unduly large. We therefore make a recommendation (paragraph 145 below), which will have the effect of ensuring the gradual reduction of the silver holding in the Reserve, during a transitional period of 10 years, from the present figure of Rs 85* crore to Rs 25 crore, on the basis of the present circulation.

* See first footnote on page 330 (i.e., footnote to para 12).

81. We recommend that the balance of the Reserve be held in Government of India rupee securities and self-liquidating trade bills. For reasons which will be explained later, it is desirable to limit the holding of Government of India rupee securities to 25 per cent, of the Reserve, or Rs 50 crore, whichever is less.

82. The new Reserve will have to maintain the external convertibility of a circulation which includes both paper and silver token. As regards the former, the liability will, of course, be equal to the total outstanding note circulation. But in the case of the silver rupee such a cent per cent backing is neither possible nor desirable. There is obviously an irreducible minimum below which the rupee circulation cannot fall, if the business of the country is to be carried on. Moreover, even of that portion of the silver circulation which is potentially contractible only the difference between the face value and the realisable bullion value need be covered. Any estimate on such a subject must be largely conjectural and subject to variations in the price and marketability of silver. We have fixed a more or less arbitrary figure of Rs 50 crore as the assumed liability of the Reserve in respect of the contractibility of the rupee circulation.

III. A CENTRAL BANK FOR INDIA (Not inserted here)

IV. STABILISATION OF THE RUPEE

TIME FOR STABILISATION

168. The system of currency which we have recommended implies the adoption of some fixed gold parity for the rupee, and the stabilisation of the rupee at that parity. It is therefore essential to our inquiry to consider whether the time is ripe for such a stabilisation of the rupee, and, if so, at what rate that stabilisation should be effected.

169. The great preponderance of opinion in the evidence which we have received is that it is desirable that the gold parity of the rupee should be fixed and that the rupee should be stabilised at that parity forthwith. It is held that the rupee should not be left to discretionary variations, with a view to the mitigation of internal price movements or for any other purpose; and it is argued that, in view of the circumstances of the times, including the return to a gold basis of the United Kingdom, the Dominions, and other countries, the time is now fully ripe for such stabilisation. Each addition to the list of countries which have stabilised their currency in relation to gold improves the prospects for the stability of gold prices.

170. In this opinion we concur. So long as no such parity is fixed, there must be uncertainty as to the future of exchange, and a consequent lack of confidence. Commercial initiative must be discouraged, and the machinery of commerce generally must be clogged and hampered. There are therefore the strongest practical reasons for deciding upon the parity and stabilising thereat (the rate?) forthwith, if that can be done with safety.

171. After considering all foreseeable circumstance, we have come to the conclusion that it is safer to stabilise now than to wait. We do not overlook the fact that a certain element of instability remains in the economic conditions of the world as long as some important countries have not attained budgetary equilibrium or a stable currency. To fear, however, that even the worst disturbances that could proceed from these sources could seriously imperil the stability of Indian exchange would appear to us to imply an exaggerated caution. A stable exchange is an inestimable boon, and it should not be sacrificed or postponed for the safe of a security that is so absolute as to be unobtainable in the practical world.

172. An apprehension was expressed to us lest some considerable change in the credit policy of the United States of America, at present the chief holder of the world's monetary stock of gold, might produce a rise in world gold prices, in which India, if definitely linked to a gold standard, would be inevitably involved. As already stated on the authority of the evidence from the United States, we have satisfied ourselves that there is no such redundance of gold in the United States as would be likely to promote such a policy. Moreover, the number of countries which have returned or are returning to the gold standard is

some guarantee that, with proper co-operation and management on the part of the various central banks of the world, a more even distribution of the available gold will be attained in time, so that world price levels will be less dependent upon the policy and actions of a single currency authority than they are supposed to be at present.

173. In short, there is not in our opinion any event in the foreseeable future which would be likely to make conditions more favourable for the purpose of stabilisation than they are at present, and the outcome of which ought therefore to be awaited: and we are, in consequence, of opinion that stabilisation should be effected forthwith.

THE RATIO OF STABILISATION

174. The legislation of 1920 has fixed the statutory value of the rupee at 2*s*; but that rate is absolutely ineffective, and the Government have declared that they do not seek to regain it. The present market rate is about 1*s*. 6*d*. It has been at that level in relation to gold since June 1925, and in relation to sterling since October 1924.

175. For the reasons set forth below we recommend that the rupee be stabilised in relation to gold at a rate corresponding to an exchange rate of 1*s*. 6*d*. for the rupee.*

Adjustment of Indian to World Prices

176. The chief reason for this recommendation is our conviction, which has been formed and cumulatively reinforced during the progress of our inquiry, that, at the present exchange rate of about 1*s*. 6*d*., prices in India have already attained a substantial measure of adjustment with those in the world at large, and, as a corollary, that any change in the rate would mean a difficult period of readjustment, involving widespread economic disturbance, which it is most desirable in the interests of the people to avoid, and which would in the end be followed by no countervailing advantage.

177. We shall proceed to discuss a number of relevant issues, which have been raised in this connection, and we shall examine the question from various angles; but we wish to make it clear at the outset that the central, and as it seems to us the decisive, factor is the extent to which the prevailing rate of exchange is reflected in internal prices. We are unanimous in holding the view - and, indeed, it is a proposition which it would be difficult to controvert - that, *if* it can be shown that prices have to a preponderant degree adjusted themselves to the existing *de facto* rate, then that rate must be adhered to. The further proposition, that such substantial adjustment has been secured, is a question of fact, as to which we shall now adduce the evidence on which our conviction is based.

178. It would be difficult, if not impossible, to pursue any argument on the subject of the movement of price levels, without making use of index figures in some form. We recognise that index figures are not an infallible guide, and that there are many directions in which they might lead one astray. Especial caution is necessary in using them for the purpose of comparing the range of price levels in two or more countries over a particular period, because the figures are necessarily compiled in different ways in different countries. Moreover, it is usual, for purposes of comparison, to refer them to the same basic year, and the year selected may not be equally suitable in all the cases concerned. For example, there may have been some local peculiarity in the circumstances of the basic year, or the character of production may have changed during the period in one or more of the countries. It may be said that the index figures are more reliable in indicating the general trend of prices in each particular country than in comparing the relative levels of prices in two or more countries.

It might have been expected that the statistical employment of the doctrine of purchasing power parity would have facilitated the task of determining the proper exchange ratio to be fixed. But quite apart from the imperfections of the Indian

* Throughout this part, when such expressions as 'the 1*s*. 6*d*. rate', 'a 1*s*. 6*d*. rupee', are used, they must be read with reference to our recommendation that the rupee should be definitely linked to gold. The expressions in questions are used merely as a convenient and familiar way of referring to the gold value of the rupee.

figures of prices, the employment of index numbers for such a purpose implies the important assumption that changes in the prices of goods entering international trade have been followed by similar changes in the prices of all other goods. A caveat has to be entered against the application of the theory of purchasing power parity to general price level as determined by figures like index numbers of wholesale prices or index numbers of retail prices and cost of living. The theory can in fact supply a very approximate guidance only, and its practical utility is of a strictly limited character. Moreover, in comparing the pre-War and post-War price levels for the purposes of the theory, we have to allow for changes in tariffs and freights both at home and abroad and changes in the character of production, and these have been very important.

179. In India there are special difficulties in the way of compiling a representative index figure owing on the one hand to the great size of the country and the cost of inland transport, and on the other to defects in the statistics on which the compilation is based, defects which have been pointed out in the report of the recent Indian Economic Enquiry Committee.

180. We desire to take this opportunity of recommending that a serious and sustained attempt should be made to remedy these defects, and to lay the basis of sound economic deductions by the collection of accurate statistics, not only of prices, but also of wages, a subject which in India presents even greater difficulties.

181. Bearing the above reservations in mind we proceed to examine the data available. We draw no conclusions from the general index numbers for all India, because these are more deeply affected by the defects indicated above than are the local indices of wholesale prices compiled at Calcutta and Bombay. Of the latter the Government of India prefer the Calcutta figures. They are more comprehensive, covering 71 items against Bombay 42. We shall deal with them first, but in the graphs referred to later we have combined the two sets of figures into one.

182. From December 1922 to June 1924 the gold exchange value of the rupee (as measured by the cross-rate, Calcutta-London-New York) remained fairly stable round 1*s.* 3*d.* gold (the limits being about 1*s.* 2.75*d.* and 1*s.* 3.5*d.*). During the same period the rupee price level, as measured by the Calcutta* wholesale index figure, remained fairly steady round 176 (the limits being 170 and 181). From July 1924 to January 1925 the rupee rose sharply to the neighbourhood of 1*s.* 6*d.* gold, and since the end of May 1925 it has been held within the 1*s.* 6*d.* gold point. From July 1924 to June 1925 the rupee price level fell from 179 to 157, and has since then† varied between the limits of 163 and 153.

183. Thus, treating the statistics in the most generalised way and disregarding minor movements, it is observable that:-

(i) During eighteen months, while the rupee was worth about 1*s.* 3*d.* gold, the rupee price level ranged round a mean of about 176.

(ii) In the succeeding year, while the rupee was rising to 1*s.* 6*d.* gold, the rupee price level fell below 160.

(iii) Since then, while the rupee has remained, or been held, at about 1*s.* 6*d.* gold, the rupee price level has ranged round a mean of about 158, with a recent tendency to fall in sympathy with world prices.

The level of world gold prices, as indicated by the wholesale price index figures of the United States and the United Kingdom, was (in spite of intermediate fluctuations) approximately the same at the beginning of period (i) and at the end of period (iii).

* The trend of the Bombay index figure is similar.

† The statistics quoted in this and the following paragraphs are carried down to March 1926, the latest month in respect of which complete data are, at the time of writing, available.

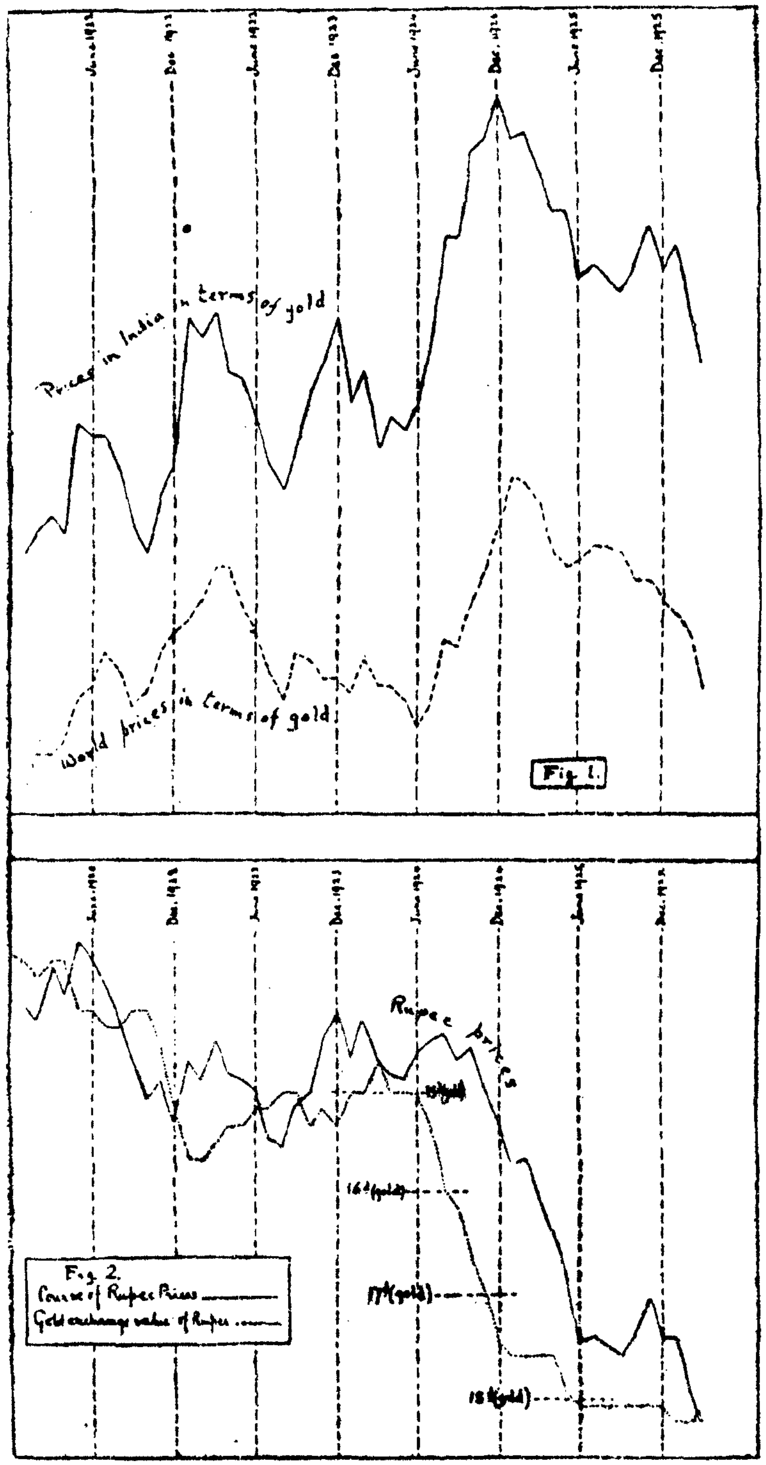
It is natural to conclude that, during the period of change, there was a mutual adjustment of prices and exchange, and that a substantial equilibrium was attained about the middle of 1925 and has been since maintained.

184. The nature and extent of the tendency towards adjustment may perhaps be more readily apprehended by means of a graphic representation. In the attached diagrams, in which an attempt has been made to exemplify general tendencies and minimise the effect of local variations, attention is directed to the comparative slopes and movements and not to the actual levels of the respective lines. The latter, as already pointed out, may be influenced by factors (e.g., the base year chosen for the compilation of index numbers) which are largely irrelevant for the present purpose, whereas the general trend of movement would remain the same whatever basis(bases) were chosen for the figures.

185. In Figure 1 are shown two lines representing respectively the course of prices in India converted into gold prices on the basis of the current market rates of exchange, and the course of world prices in terms of gold. In the case of India the average between the Calcutta and Bombay figures of wholesale prices has been used, while the figure for world prices has been obtained by averaging the wholesale index numbers of the United States (Bureau of Labour) and the United Kingdom (Board of Trade) after correcting the latter for any variation of sterling from gold parity. In Figure 2 is shown the course of Indian prices in terms of rupees, i.e., actual prices in Calcutta and Bombay; together with this is plotted, for purpose of easy reference, the course of the gold exchange value of the rupee.

186. It will be seen that in 1923 and the first half of 1924, when the exchange was fairly steady at about 1*s.* 3*d.* gold, movements of world prices and of Indian rupee prices roughly corresponded, but from October 1924 to September 1925 there was a rapid and violent downward movement of the rupee price level which was not the reflection of any similar movement in world prices. The line representing Indian prices *in terms of gold,* however, continued to follow approximately the same trend as world prices, thus indicating that the fall of rupee prices was due to the adjustment of these prices to a new level of exchange.

187. An inspection of the diagrams suggests some interesting inferences as to the nature, pace and extent of the inter-adjustments between prices and exchange during the period (from the middle of 1924 to the middle of 1925) when the rupee was rising from 15*d.* gold. Although it was not until the end of that period that 18*d.* gold was definitely attained, it has to be remembered that the greater part of the rise took place in the first half of the period, i.e., during the last six months of 1924. During that half-year the rupee rose approximately from 15*d.* gold to 17.6*d.* gold. World prices rose sharply from July 1924 to February 1925 and then receded gradually; by June 1925 they had come back to the level at which they stood in November 1924. Rupee prices remained nearly stationary from July to October 1924, and then, as pointed out above, a rapid fall set in. The only reasonable explanation of these divergencies between the course of rupee prices and that of world prices is the concurrent rise in exchange. The effect on rupee prices of this rise in exchange was not fully apparent at the outset, owing no doubt to the usual lag in such adjustments; it was sufficient immediately to check the rise in rupee prices, but it took a few months to overcome the inertia of those prices and produce a decided fall. When once the fall had set in it continued with practically equal rapidity throughout the first six months of 1925, although, as already observed, exchange at this period was rising at a much less rapid rate; in fact it only rose during these six months from 17.6*d.* gold to 18*d.* gold. The lag due to economic friction was then exerting its influence in the opposite direction, that is, it was tending to keep prices falling at the same pace although the impetus which started the fall had lost much of its force. The conclusion seems almost irresistible that the marked fall in rupee prices in the first half of 1925 represented largely the tendency of those prices to adjust themselves to the rise in exchange, the greater part of which had occurred in the preceding half-year. This conclusion is strikingly illustrated by the



In figure 2, to facilitate comparison between the slopes of the two curves, the graph of the exchange value is inverted; *i.e.*, an upward slope represents a fall in exchange, and a downward slope a rise in exchange.

parallel course of the lines in Figure and is borne out by the course of prices in recent months, when with a steady exchange both rupee and world prices have been falling, practically in unison. The final curves in the diagrams suggest that the adjustment of internal prices in India to the 1*s*. 6*d*. rate of exchange is practically complete and that the trend of rupee prices has again begun to correspond with that of world gold prices.

188. This analysis appears to provide a conclusive answer to the main contention of those who doubt whether any substantial adjustment has yet taken place. That contention may be broadly stated as follows: 'It was not till June 1925, that the rupee attained 18*d*. gold. Since that date rupee prices have been practically stable in relation to world prices. Therefore adjustment has not taken place and is still to come'. The answer is that although the rupee did not definitely reach 18*d*. gold till June 1925, it had between July 1924 and January 1925 already traversed more than 80 per cent of its upward journey from 15*d*. to 18*d*. gold; and that before June 1925 there had already taken place a heavy fall in rupee prices in relation to world prices, which may be regarded as the complement of the steep rise in exchange.

189. A further indication of equilibrium between internal and external prices during the last twelve months is to be found in the steadiness of exchange. Exchange is the mechanism by which differences in these two price levels are adjusted, and by which they are, as it were, kept in gear. When exchange remains steady over a fairly long period it may ordinarily be inferred that there are no differences to be adjusted. It has been urged against this view that exchange has only been kept at 1*s*. 6*d*. by Government manipulation, but in fact the so-called manipulation has been confined to an addition of 9 crore to the note circulation during the recent busy season and a withdrawal of 8 crore at the end of it. Such an amount of expansion and contraction is by no means excessive and is contemplated in the Indian Paper Currency Act as a normal seasonal variation. The fact that advantage has not been taken of the offer made by the Government in April last to sell sterling at 1*s*. 5.75*d*. goes to show that the present volume of currency is adjusted to the 1*s*. 6*d*. ratio.

190. It is relevant also to consider the course of India's foreign trade, which would naturally be affected by any disequilibrium between internal and external prices. If the rupee were either under-valued or over-valued internally in comparison with the external value, either exports or imports would be subjected to a handicap which we should expect to see reflected in adverse conditions in the general trade of the country. As a matter of fact, while there are individual trades which are passing through a period of adversity, the general trade of the country, taken as a whole, shows no signs of the imposition of such a handicap.

191. All the above considerations point to the same conclusion, viz., that after twelve months of the 1*s*. 6*d*. rate of exchange, substantial adjustment of prices has been attained; and this conclusion is borne out by the experience of other countries which have recently stabilised their exchanges.

WAGES

192. We turn now to the question whether wages in India are in adjustment with the present level of prices and exchange. The material available is even less extensive and reliable than that relating to prices. But it may be inferred on general grounds that considerable progress has already been made in the process of adjustment. Prices are bound to react on wages sooner or later all the world over, and, although the effect may take longer to manifest itself in India than in countries where industry is more highly organised, the economic tendency none the less exerts its force in the same direction. In India a much larger percentage of wages is spent on foodstuffs than in western countries, and therefore there is a very necessary ultimate adjustment of wages to the price of food grains. This has been obscured for the time by the abrupt and belated rise of wages which the last decade has seen - a rise which was to some extent accelerated by factors not purely economic.

Where exchange and prices have been steady over a considerable period, we should feel justified in assuming that wages were in adjustment unless there were any clear indications to the contrary. The statistics of foreign trade afford no such contrary indication, but rather strengthen the assumption. Agriculture, which is pre-eminently India's greatest industry, has suffered from the world-wide effect of the War, which has been to leave the prices of agricultural produce at a lower level in relation to manufactured articles. This effect is illustrated by the marked difference between the average rise since 1914 in the prices of the articles that India exports, which are mostly agricultural, and the rise in the prices of imported articles, which are mostly manufactured. The rise has been considerably greater in the latter case than in the former, and this undoubtedly constitutes an economic loss to India. But it is a loss which she shares with all other agricultural countries and which cannot be made good by any monetary policy. In spite of this disadvantage such figures as are available (e.g., the index numbers of agricultural wages in rural areas compiled by the Labour Office, Bombay) indicate a general tendency to improvement in the wages of the labourer, and this tendency may be expected to facilitate adjustment to falling prices, which indeed operate as a check to the rising tide of wages. A similar phenomenon has been observed in the case of Government services, where the increase in the value of the rupee to 1*s.* 6*d.* has enabled Government to refuse increases of pay which it might otherwise have been difficult to resist.

193. On the whole we see no reason to believe that there is any general maladjustment in agricultural wages. Neither have we been able to discover any such condition in the wages paid by manufacturing industries generally. The Jute mill industry of Bengal granted temporary increases of pay to its employees in the years when prices were abnormally high, but as a result of the adjustments which have taken place the wages now paid in that industry are in line with to-day's price levels and cost of living. We found certain other important industries in a state of depression, notably the steel and cotton mill industries. The steel industry is suffering, not so much from high wages, as from the stress of foreign competition, stimulated in some countries, e.g., Belgium, by depreciating exchanges. With regard to steel and other industries, it appears to us that relief, if relief is really required, cannot properly be obtained by manipulation of the currency. The cotton mill industry of the Bombay Presidency has furnished us with detailed figures illustrating its difficulties. The chairman of the Bombay Mill-owners' Association told us that the present index figure of wages of mill-hands is 231 (as compared with 100 in 1914), and that attempts to reduce wages have been frustrated by strikes. This, too, in spite of the fact that the Bombay index numbers of wholesale prices, retail food prices, and cost of living are only 150, 150, and 153 respectively. These figures indicate that either the pre-War rate of wage was too low or the present rate is excessive. The reduction of the exchange rate to 1*s.* 4*d.*, which the chairman of the Association and many other witnesses advocated, would at best provide a temporary alleviation only for so serious a maladjustment. The ultimate effect would merely be, by inflating the currency to the extent of 12.5 per cent, to produce a concealed reduction in wages of an equivalent percentage. Even if this would secure the desired equilibrium, which seems highly improbable, we do not regard it as sound policy to use the currency as a lever to reduce real wages. Any adjustment of wages thus brought about would be arbitrary in extent as well as temporary in character. Inflation is a dangerous expedient, which has often been advocated, and sometimes deliberately applied, in other countries for similar purposes, but it has always been found to carry nothing but evils in its train. The prosperity of an industry depends on the soundness of its internal economy and its adaptability to changing conditions; and any basic unsoundness in its economic conditions cannot be rectified by a mere change in the ratio of exchange.

Effect on Contracts

194. In addition to prices and wages it is relevant to consider how outstanding contracts will be affected by the rate at which it is proposed to stabilise exchange. It has been represented to us

that land revenue and other long term contracts were settled when exchange was at 1*s.* 4*d.* It is true that many of the current land revenue settlements were made during that period because generally speaking the normal term of these settlements is 30 years; but in view of the great rise in prices since 1914 the real incidence of land revenue, measured in terms of commodities, has been very materially lightened, and we cannot regard a 1*s.* 6*d.* rate as constituting a hardship in this respect.

195. With regard to other long term contracts, it must be remembered that the Indian exchange has been in a more or less unstable condition for the last 8 or 9 years. If regard is had to the gold exchange value of the rupee (computed, during the period of sterling depreciation, by a combination of the rupee-sterling and dollar-sterling exchanges) it will be seen that the rate broke away from 1*s.* 4*d.* gold in an upward direction in 1917 and continued to rise until February 1920, when it touched 2*s.* gold. It then fell away very rapidly to 11.5*d.* gold in August 1921, and from that time rose until, in June 1925, it reached 1*s.* 6*d.* gold. It has since remained at about that figure. During the whole of this period of 8.5 years the rate has been at or about 1*s.* 4*d.* for short periods only, and has certainly never remained long enough at that figure for conditions to have been able to be readjusted on the basis of the old rate. It cannot be contended that contracts and arrangements concluded prior to 1918, and still existent, bulk more largely in the economic life of the country than those concluded during the subsequent 8.5 years, during which period the exchange has been in a state of flux.

196. After the prolonged disturbances which have taken place, it is impossible to do absolute justice to the long-term debtor and creditor by fixing on any particular rate of exchange. In any case these long-term debts form only a small part of the total contracts outstanding. The great bulk of the contractual obligations incurred under modern conditions consists of short-term contracts, and so far as these short-term contracts are concerned, it is reasonable to suppose that they originated, for the most part, when conditions were based on the 1*s.* 6*d.* rate, or in any event after exchange had broken away from 1*s.* 4*d.*

We conclude therefore that from the point of view of contracts, as well as from that of prices and wages, the least disturbance will be caused, and the least injury will be done to all the interests concerned, by adhering to the *de facto* rate.

Arguments for Reversion to 1s. 4d.

197. The only other rate which has been seriously advocated by many of our witnesses is 1*s.* 4*d.* This has been described to us as the 'natural' rate for the rupee, but we have not been able to ascertain exactly what is meant by that term. Fluctuations in exchange are produced by the mutual interaction of internal and external prices, and as the level of internal prices is determined mainly by the volume of internal currency, the only rate which can properly be regarded as natural is the figure at which these prices are in adjustment with the existing volume of currency and are also in equilibrium with external prices. From this point of view 1*s.* 6*d.* appears to be clearly the 'natural' rate under present conditions. The term, however, appears to be loosely used to denote the rate which would result if no attempt were made either by statutory enactment or executive action to anchor the rupee at a particular point. If such a policy were adopted, there can be no doubt that in a country like India where there are wide seasonal fluctuations of trade there would be similarly extensive fluctuations in the rate of exchange amidst which it would be impossible to distinguish any particular rate as 'natural'.

198. In this connection we have received criticisms of the action of Government in intervening in April 1926 to prevent a fall of exchange below 1*s.* 5.75*d.*, though no exception has been taken to the earlier action of the Government, in October 1925 in intervening to prevent a rise in exchange above 1*s.* 6 3/16*d.* As a matter of fact if either of these tendencies was a natural one (i.e., the genuine reflection of trade conditions) it was the earlier tendency to rise above the 1*s.* 6*d.* upper

gold point. That is evidenced by the fact that the rate was only kept down by large purchases of sterling and the accompanying expansion of the currency, whereas on the later occasion it has been authoritatively stated that the falling tendency was due not to any genuine trade factors but largely to speculation on the possibility of a lower rate than 1*s*. 6*d*. being recommended in our report. This statement is to some extent confirmed by the fact that the mere offer of reverse remittance at the 1*s*. 6*d*. lower gold point, coupled with a contraction of the currency by an amount nearly equivalent to that which was let out at the beginning of the busy season, was sufficient to check the fall and no reverse councils were actually applied for.

199. One of the arguments frequently urged against the retention of the 1*s*. 6*d*. rate may be analysed as follows. Granted that the *de facto* rate has been in operation for a considerable time and that prices and other conditions may have become adjusted to it, nevertheless it is urged that the rate came into being through Government manipulation of the currency, and it is suggested that a rate so established can be disturbed with less harmful results than would follow from the disturbance of a rate which has been produced by the interplay of purely commercial forces. This argument has only to be thus clearly stated to be seen to be fallacious. If it were true that the Government of India, as currency authority, were in error in pursuing a policy which resulted in the holding of the rupee at 1*s*. 6*d*., it would be justifiable to criticise such error, but it would still remain true that, in choosing a rate for the final stabilisation of the rupee, it is the facts of the present that must be faced. When prices and other conditions are in adjustment with those in the world at large on the basis of an existent exchange rate, the question of the means by which that rate came into existence has no bearing on the extent or violence of the economic disturbances which would result from an alteration in the rate.

200. It has been suggested in favour of the 1*s*. 4*d*. rate that it would reduce the total demand for gold in connection with the introduction of a gold standard; and, further, that we have to envisage the possibility of a failure of the monsoon requiring the utilisation of the gold and sterling reserves of Government to support exchange, and that the rate of 1*s*. 4*d*. would be easier to maintain than 1*s*. 6*d*. The first contention overlooks the fact that a reduction in the gold value of the monetary unit by 12.5 per cent involves of necessity an increase of the circulation by a similar percentage. The amount of gold in reserve required to support the circulation would therefore be the same in either case. As regards the second suggestion, provided that the gold and gold securities reserves are sufficient to prevent their exhaustion before the necessary contraction of the rupee circulation has been brought about, we see no ground for thinking that, with the establishment of a central currency and banking authority, with full power to make its credit policy effective, it will be more difficult to maintain exchange at 1*s*. 6*d*. than at 1*s*. 4*d*. The proviso is satisfied by the constitution of reserves recommended elsewhere.

201. When once exchange has been stabilised and prices and other conditions are fully adjusted to the rate chosen, it is of course true that the testing time for the mechanism that maintains the exchange will come if and when there is a succession of bad monsoons. But that testing time will come equally whether the rate of stabilisation be 1*s*. 6*d*. or 1*s*. 4*d*. or any other rate; and the ability to meet it will depend, not on the figure at which exchange is fixed, but, as indicated above, on the maintenance, and proper utilisation, of adequate gold reserves.

202. It has been suggested that competition from foreign countries with depreciated or depreciating currencies, such as France and Belgium, could be met by lowering the India exchange to 1*s*. 4*d*. When once these currencies have been stabilised, the adoption by India of a ratio of 1*s*. 4*d*. rather than 1*s*. 6*d*. would not leave her in any better position to meet such competition. During the transition period, when the foreign currencies are unstable the remedy, if any, must rather be sought elsewhere than in the manipulation of her currency policy. If it should happen that any of the other countries concerned avoid stabilisation, and allow their currencies to depreciate continuously,

it will scarcely be suggested that India should enter on a course of competitive inflation in order to keep pace with them.

203. The rate of 1*s*. 4*d*. has also been supported on the ground that the recent abnormal absorption of gold by India has been due to the cheapness of gold brought about by the rise in exchange, and that there will be a wholesome check to this absorption if the rupee price of gold is raised by lowering the gold value of the monetary unit. It was stated in evidence before us, by a leading bullion broker, that whatever the rate of exchange, India must buy, has bought, and will continue to buy gold; and that she can never be saturated with gold, and will only stop buying it when her production falls off through famine or other causes. It is true that India's appetite for gold can be cured by a lowering of the other commodities, but it is evident that, since a change in the gold value of the rupee must involve a corresponding change in the rupee prices of commodities, the mere lowering of the ratio of the rupee cannot result in more than a temporary alteration in the relative cheapness of gold and general commodities. The suggestion that India's appetite for gold can be cured by a lowering of the exchange is indeed based on an imperfect apprehension of her economic circumstances. The only sure way to eradicate this wasteful habit is to stabilise the currency, establish confidence in its stability, educate people in the habit of investment, and extend banking facilities.

204. Another argument advanced in support of a reversion to the pre-War rate is that there is likely to be a fall of world gold prices in the near future, and that the fixation of exchange at 1*s*. 6*d*. will accentuate the fall in India, and make it specially embarrassing, as was the rapid fall which took place in 1920, when the ill-fated attempt to stabilise Indian exchange at 2*s*. was made. The economic conditions of to-day are very different from those prevailing in 1920. The fall in prices that occurred in that year was quite abnormal both in rapidity and in extent. It was an aftermath of a world-wide upheaval, a reaction from the enormous expansion of credit that took place during the War. It would be imprudent to base a currency policy on the supposition that such conditions are likely to recur, because a second upheaval of the kind would overwhelm almost all currency systems in a common ruin. If we aim at stability we must assume that the period of catastrophic disturbance is over and that future movements of prices will proceed on more normal lines. If the world's gold production in the future should fail to keep pace with the demand, a period of falling prices would probably set in, but, judging from past experience, the price movement due to such a cause would be slow and gradual, and should not prove a menace to the stability of the rupee. India might no doubt suffer, with the rest of the world, from a long period of trade depression, but that is a risk which she cannot escape if she adopts, and adheres to, a gold standard. Moreover, it is a risk to which she will be equally subject whether she stabilises her exchange at 1*s*. 6*d*. or at 1*s*. 4*d*.

205. Broadly speaking, the arguments which have been brought forward to prove that a reversion to 1*s*. 4*d*. would be beneficial, merely show that, during a period of adjustment of conditions to that rate, certain sections of the community (e.g., debtors, exporters, and employers of labour) would be benefited at the expense of certain other sections (e.g., creditors, importers, and wage-earners); they do not show that there would be any substantial permanent benefit even to any section at the expense of another, still less to the country as a whole.

Economic Effects of a Reversion to 1*s*. 4*d*.

206. On the other hand, the change would produce a profound disturbance in economic conditions throughout India. Even if our view that prices and wages have been substantially adjusted to the 1*s*. 6*d*. rate is challenged, it cannot be seriously contended that they are in any way adjusted to a rate of 1*s*. 4*d*. As we have already pointed out, it is more than 8 years since that rate was in stable operation, and, in view of the wide fluctuations that took place between 1917 and 1925, it seems clear that the only rate to which there can be any degree of adjustment is 1*s*. 6*d*. In so far as this adjustment has taken place - and

we have given our reasons for believing that it is practically complete - a reduction of the rate of exchange to 1*s.* 4*d.* would produce a general rise of prices of 12.5 per cent, a change which would be severely felt by consumers generally and especially by the poorer paid members of the literate classes. The adoption of a 1*s.* 4*d.* rate would result in an arbitrary reduction of the real wages of labour; and for the infliction of such a hardship we can see no justification in equity or in expediency, in the interests of the classes directly affected or of the community as a whole.

The effect of the change on foreign trade would be immediate and for a time convulsive. No one acquainted with the practical working of the exchange market can suppose that once a policy of reversion to a lower rate had been announced, there would result merely a gradual and steady decline to that rate. There is always a considerable amount of latent demand for remittance to England, and, if the decision to adopt a lower rate were announced remitters would at once endeavour to obtain the best price for rupees which they could get until the rate announced were reached. The tide would then turn the other way and there would be a very large demand for rupees at the new rate. This would have to be met by an offer to buy exchange without limit at the gold import point, thereby making additions to currency. This might possibly lead to a series of violent fluctuations before exchange settled down at the new lower rate. Whether such fluctuations took place or not, the sudden fall in exchange might easily create a boom which would be followed later by a slump.

Effect on Public Finance

207. Some evidence has been put before us as to the effect which would be produced on the Government finances by a reversion to 1*s.* 4*d.* We do not regard this as a decisive factor; but we cannot ignore the fact that a reversion to 1*s.* 4*d.* would inevitably lead to increases in both Central and Provincial taxation and would probably also result in a postponement of further remissions of the Provincial contributions to Central revenues, and a setback to the development of nation-building projects in the Provinces.

208. As to the finances of the Government of India, the Budget is now based on an exchange rate of 1*s.* 6*d.* to the rupee. If exchange were lowered to 1*s.* 4*d.* it would no doubt be possible ultimately to make adjustments (including the grading-up of taxation in accordance with the decreased value of the rupee) which would enable the Government to meet its liabilities without any increase in the real burden of taxation. Nevertheless, the immediate effect on the Budget would be considerable. The financial authorities in India have estimated that, on the basis of the 1925-26 Budget, the net sterling expenditure of the Government of India would be at once increased by about three crore per annum. There would be a similar immediate increase in the railway expenditure. Although railway finances have been separated from general finances, the effect of a lowering of the exchange rate would be to require either an increase in rates and fares or a revision of the terms of the Railway Contribution; so that the whole or part of this further increase might well become a charge on the general budget. There would be some extra expenditure on stores purchased in India, and some readjustment might have to be made in salaries of Government servants who would be affected by the increased cost of living. Some portion of the increased expenditure would no doubt be met from the increase in Customs revenue from such articles as are assessed on an *ad valorem* basis. This on a rough calculation, making some allowance for decrease in the volume of imports, would not exceed 2 crore. No estimate can be framed of any increased yield which might eventually be had from Taxes on Income. What is clear is that the immediate loss from the standpoint of public finance would be considerable and would require to be made up by increases in taxation, if the Budget were to be balanced, and by still further increases, if further reductions in the Provincial contributions or in existing forms of taxation were to be made.

209. A significant circumstance is the recent successful issue by the Government of India of a long term loan of Rs 25 crore at 4 per cent at a price of Rs 88 per cent. That it is possible for India to borrow at a rate which compares favourably with the rate at which the most advanced countries can borrow at present is a matter of congratulation, and shows how high the financial credit of India stands. This improved position is based on the balancing of the Indian budget. A reversion to the 1*s.* 4*d.* ratio, by the very adverse effect which it would have on the budgetary equilibrium, would necessarily impair the credit of India as regards borrowing.

210. The effect on Provincial finances of lowering the rate to 1*s.* 4*d.* has been well described as follows by the Government of Madras:-

'Any policy adopted as a result of the recommendations of the Royal Commission may vitally affect the Government of Madras as a local Government. The alteration in the level of prices which resulted from the War subjected their finances to a strain from which they have not yet fully recovered. The necessity for a revision of salaries was becoming evident even before the outbreak of the War, and during its course cases in which relief was most urgently called for were met by a series of expedients which were purely temporary in character. On the conclusion of the War a comprehensive measure of revision had to be undertaken, and the burden thus imposed on the revenues of the Presidency were so great as to neutralise any benefit it received from the financial settlement in connection with the Reforms. The full liabilities which this revision of salaries imposed have not even now been liquidated, and only the fact, that the considerable measure of stability in prices which has prevailed of late has rendered any further general measure of revision unnecessary, has enabled the Madras Government to meet the annual increase in its establishment and pension charges. If, as a result of changes in currency policy, a further rise in prices were to render a revision of salaries again necessary, the revenues of the Local Government would become inadequate to the strain, and the levying of additional taxation for improving the salaries of Government servants at the cost of the taxpayer, who would himself be affected by the rise in prices, would cause widespread discontent. This would be accompanied by a new period of readjustment of agricultural and industrial wages with all the dangers and unsettlement which that involves. The Madras Government trust, therefore, that theoretical arguments will not be allowed to obscure a practical issue to which they attach great importance'.

Miscellaneous Considerations

211. We have referred in an earlier part of our Report to the difficulty of keeping the silver rupee in circulation if the price of silver were to rise above the melting point of the coin. With the rupee at 1*s.* 4*d.* the melting point would be reached if the price rose to approximately 43*d.* per standard ounce in London: with a 1*s.* 6*d.* rate the melting point would be at about 48*d.* per ounce. From the evidence that we have received as to the present state and future prospects of the silver market, it seems improbable that either of these levels will be reached for many years; but, as we have observed in paragraph 46, the future of the market is shrouded in obscurity, and in framing our proposals for reform of the currency system we have deemed it prudent to envisage the possibility of a material rise in the price of silver at some future time. If such a rise should take place, it is obvious that a 1*s.* 6*d.* rate of exchange will provide a wider margin of safety than 1*s.* 4*d.*, and though an insurance of this kind will not, in view of our recommendation as to the status of the note, be any longer a decisive consideration, it constitutes an advantage on the side of the 1*s.* 6*d.* rate.

212. There is one minor respect in which an advantage is claimed for the 1*s.* 4*d.* rate. At that rate of exchange the sovereign is equivalent to precisely 15 rupees, whereas at 1*s.* 6*d.* the value of the sovereign in Indian currency is Rs 13 as 5 ps 4, a sum which would be very inconvenient if the sovereign were to circulate as money. This objection, however, will lose much of its force if the legal tender character of the sovereign is

removed, and it will hold good only in regard to accounting, where the 1*s.* 6*d.* rate will involve a recurring decimal in the conversion of pounds into rupees. Even this objection is not as strong as it appears at first sight because a crore of rupees will be exactly three-quarters of a million pounds. We have been told by Government witnesses that for their accounting purposes 1*s.* 6*d.* is not at all inconvenient. The same is true in respect of commercial transactions. On the whole, therefore, the balance of convenience from the point of view of accounts seems to be about equal.

Conclusion

213. The combined weight of all the above arguments leaves no doubt in our minds as to the right course. It brings us to the conclusion, as already indicated, that the rupee should be stabilised in relation to gold at the existing rate of 1*s.* 6*d.* The opportunity for reversion to the historic rate of 1*s.* 4*d.*, if it ever existed, is gone; and the best interests of India as a whole now require that stability should be achieved without producing those disturbances which would be the inevitable consequence of adopting any rate but that which is current.

REPORT OF THE UNIVERSITY EDUCATION COMMISSION, VOLUME I

CHAPTER XIV

I. Introductory: Present Financial Position of Universities.

1. *Income and Expenditure in Universities:* A careful perusal of the budget statements presented by the universities in India reveals the fact that the financial position of most of the universities is far from satisfactory. In most cases, the universities are working on a deficit budget and in all cases, it is seen that the revenue from the different sources is hardly sufficient to meet the average present needs of the universities, and in no case are there sufficient funds either for expansion or for improvement in the many directions needed.

2. *Increased Expenditure:* It is to be noted that the expenditure in all universities has increased considerably within the last ten years without a proportionate increase in income. The increase in expenditure is due to causes over which the universities have had no control. Briefly stated, conditions during the War and in the post-War period have brought about certain abnormal increases in expenditure under heads which the universities could not have anticipated prior to the War. In those universities which had substantial endowments or which had capitalised funds, the reduction in interest rates has resulted in a number of institutions suffering serious loss under general endowment income.

While there has thus been a great decrease in the annual income of the universities concerned, there has on the other hand been, as stated above, a very large increase on the expenditure side. The main item of increased expenditure has been on the salaries of teachers and of the administrative staff, necessitated by higher costs of living. In particular, the salaries of the junior teaching staff and of the subordinate administrative staff required to be materially enhanced. This increase was not proportionate to the rise in the cost of living and was given effect to with great difficulty on account of paucity of funds. The Bombay University, for example, notes that the decision of the Government to increase by Rs 10 the dearness allowance paid to their employees in receipt of salary not exceeding Rs 250/- had the effect of burdening the University finances with an additional recurring expenditure of over Rs 30,000 per annum. The changes in the grades of lecturers' salaries in some North Indian universities were responsible for a considerable additional recurring expenditure. Travelling allowances have gone up on account of the changes in the system of classes and fares on all the Indian Railways, compelling most universities to pay first class fares where they used to pay second class and expenses on this head may have to go up further on account of Air Travel facilities now available.

3. *Increased Cost and Diminished Income:* Besides these general increases in expenditure, it is to be noted that considerable increase is also inevitable owing to the increased cost under all items of expenditure in a university. The university publications cost more to-day on account of increased cost of paper; laboratory equipment has become very much more costly; cost of construction of buildings and hostels has greatly increased while the increased cost of imports and the high rates of examination charges have resulted in increased expenditure under necessary heads.

It is, therefore, not surprising that a scrutiny of the budgets and financial estimates of the different universities in India shows deficit balances in almost every university, the position thus being precarious in some and causing anxiety in almost all. A feature of expansion of university education that has affected the finance seriously is the starting of a number of new universities within a short period and the consequent reshaping of existing universities. Reference has been made to the starting of the Poona University and the proposals for the Karnataka and Gujarat Universities. Within the last five years several new universities of an affiliating type have been started: Utkal, Saugor, Gauhati, Rajputana, East Punjab, Kashmir, Poona, Karnataka, Baroda and Gujarat Universities, and there are reports current that more universities are likely to be started. The need and utility of more universities are not questioned, but in a chapter on finance, it is obviously necessary to take note of the financial implications on both the existing universities and the proposed universities. Reference will be made at a later stage in this report to the financial conditions that should be considered as fundamental for the starting of a new university. We are here concerned with the effects of the rise of new universities on the finances of existing universities. So long as universities depend largely upon fee income derived from examinations, the seceding of a large number of colleges and of a corresponding number of examinees consequent upon the establishment of these new universities imposes and has created conditions resulting in an acute financial crisis. These difficulties will be accentuated when our proposals for the transfer of the High School and Intermediate classes from the universities are given effect to and when the university course for the First Degree is lengthened from two years to three years. The first proposal will reduce the income derived from examination and tuition fees and the abolition of the classes will reduce the numbers of only the lowest paid teaching staff. The additional year for the Bachelor's degree will involve the employment of a larger number of teachers on higher salary. Moreover, in every new university post-graduate classes have to be started and expensive instruction given to the small number coming to each one of them. Further, the research work which must be encouraged in each of these universities entails considerable expenditure. An abstract statement of the financial position as culled from the Budget Estimates of the universities, wherever available, is appended (Appendix N, not inserted).

II. Finances of University Colleges and Affiliated Colleges.

4. *Financial Resources of Affiliated Colleges. (a) Grants:* In dealing with the finances of universities, it is necessary to take into consideration, the financial condition of the universities and of the affiliated colleges in a university. While the finances of a university are largely drawn from endowments, from examination fees, tuition fees and grants, the affiliated colleges do not generally derive any financial assistance from the university directly. The financial assistance given to affiliated colleges varies from province to province; in some it amounts to 50 per cent of the salaries of sanctioned posts, but in some provinces no grants are given by the Government to the private colleges. The grant-in-aid code of Provincial Governments which is followed in some provinces is not too liberal and it is not liberally interpreted either. Besides, many of the colleges which depend entirely on students' fees, may not only cover all expenses from them but sometimes even make a profit.

The grants to aided colleges are given for:-

(a) Buildings,
(b) Equipment,
(c) Library,
(d) Fee concessions, and
(e) Teaching staff.

It used to be the practice formerly in some provinces that the building and equipment grant was restricted to 50 per cent of the cost. Recently, Provincial Governments have made radical changes restricting the amount of grant that may be given towards these very necessary purposes. At Delhi, the Government of India is agreeable to the payment of 50 per cent of the net expenses for erecting new buildings for the colleges in the University area. The Madras Government, however, has passed orders restricting the building grant to a maximum of Rs 75,000 for college buildings. The conditions pertaining to grants for equipment and library are stringent and are not always such as will enable a college to proceed with the urgent requirements with any degree of certainty; and these grants are also given after completion of the buildings or the purchases required, and managements find it difficult to meet the expenditure in advance of the grants that are likely to be received. The position of the affiliated colleges, therefore, has been causing considerable anxiety both to the managements and to the universities concerned, as the expenditure to be incurred has increased for the same reasons for which expenditure has increased under the different items of university finance.

(b) *Endowments:* Nor can it be said that the colleges have substantial endowments to fall back upon. Even in regard to well-established colleges, the income from endowments has decreased and the income from other sources has dwindled. Taking all these factors into consideration, a method of stabilizing the financial security of colleges has been adopted in the Madras University, whereby the management wishing to start any new colleges had to furnish an endowment of five lakh of rupees for a First Grade College and three lakh for an Intermediate College, which, under the present fairly low rate of interest, will yield an annual income of Rs 15,000 for a First Grade and Rs 9,000 for an Intermediate College. A strict adherence to this condition of affiliation within the last six years in the case of newly started colleges has enabled the University to satisfy itself about the proper running of these colleges, while the managements have been relieved of a great deal of financial embarrassment which they would have had if such a secure income was not available.

It must, however, be stated that in spite of these endowments, neither the new colleges nor the old colleges are in a position to meet the growing demands in regard to salaries and to the other conditions of efficient instruction. The scales of salaries payable to teachers have been separately dealt with in Chapter III[1] (not inserted), but it must be repeated that one of the chief drawbacks in most colleges is that the salaries payable to teachers are inadequate, and it has led to a great deal of discontent among the teaching staff, which must of necessity be reflected on the tone and efficiency of the colleges.

5. *Endowments of Universities:* It has been stated that the universities derive their income either from endowments or from Government grants apart from the examination fees and tuition fees levied by them. Although a few universities have had large endowments given, it may be said that on the whole the income derived from endowments is by no means adequate to meet the needs of modern universities. Large endowments have been made to a few universities by the founders or by generous donors. The Annamalai University owes its inception to the generosity of the late Rajah Sir Annamalai Chettiar of Chettinad. The Banaras and the Aligarh Universities have had large endowments given by Princes and commoners. The Calcutta University has had endowments given by such eminent persons as P. C. Roy, Rash Behari Ghose and Tarakanath Palit; while Bombay has had large endowments from the Singhania and Tata Trusts besides endowments from several other philanthropic citizens; the University of Nagpur has had a large endowment under the Laxminarayan Trust Fund, and the Madras University has for the first time been given a generous endowment by Dr. Alagappa Chettiar. The University at Saugor owes its existence to a donation of Rs 2,000,000 from Sir Hari Singh Gaur which is regarded as a first instalment. It cannot, however, be stated that endowments to universities in this country have flown in the same generous manner in which they have either for the British universities or for the American universities. It has been well said 'that a university's general endowment fund is the surest foundation upon which to build its independence and stability and that a university with a substantial background of endowment is in fact in a strong position not only as regards its own internal control but as regards new developments which it may consider to be particularly desirable'. While it is hoped that similar may be forthcoming, it is not only the rich who should give such endowments, but all those who have enjoyed the benefits of a university education should likewise realise the duty they owe to universities and should repay them in some form or other. It must, however, be confessed that under present conditions, it would be undue optimism to expect universities to be run on endowments that may be forthcoming.

Even in the British universities endowments were responsible for 14.5 per cent of the total income of the universities in 1935-36, while in 1946-47 it fell to 9.3 per cent. This decrease however is not in the total amount derived from

1. See Pp. 78-79.

endowments. Whereas the total income of the universities was seven million pounds in 1935-36, it was 13 million pounds in 1946-47.

Exemption from Income-tax: It has been suggested by some that donations to universities will be encouraged if we have a clause in our Income Tax Laws regarding exemption from taxes to be granted for gifts for educational purposes. These may be on the lines of the American Tax Law which allows for exemption of an amount donated by an individual to a Corporation or Trust Fund organised and operated exclusively for scientific, literary or educational purposes. The same proviso about the maximum amount to be exempted, namely, 15 per cent of the tax-payer's net income, may be accepted. [2]

6. *Government Grants for Universities:* Universities have been receiving grants either from Provincial Governments or from Central Government and in some cases from both. The majority of the universities situated in the provinces have received grants from Provincial Governments. These grants are annual grants and in some cases they are treated as block grants so that a definite income from this source is guaranteed for the university concerned. The Central Government has held itself responsible for grants to three universities: the Banaras University and the Aligarh University which were started as sectional universities, both of these being situated in the United Provinces and the comparatively more recently started University at Delhi in the Delhi Province which is within the direct jurisdiction of the Government of India. Till very recently, the Central Government did not give any annual grants for other universities; within recent years, grants have been given to certain universities for specific objects, largely for technological education; while more recently grants have been given to some universities on ceremonial occasions or to take up new activities.

Small amounts have been given to university departments of research for the furtherance of research programmes by some of the organisations responsible for encouraging research. Thus university departments of research or research departments in colleges affiliated to universities have received small grants from (a) Indian Research Fund Association, (b) Council of Scientific and Industrial Research, (c) Imperial Council of Agricultural Research, (d) Department of Scientific Research, and similar bodies.

The Government of India started a few years ago the University Grants Committee. It is understood that the University Grants Committee is mainly concerned with recommending grants to the three universities financed by the Government of India, namely, Banaras, Aligarh and Delhi. We learn, however, that it is the intention of the Government of India to expand the activities of the University Grants Committee so as to cover all Indian universities. We have referred to the place of a University Grants Commission in relation to universities in general at another place in this Report (Ch. XIII, not inserted).

7. *Changed Outlook required:* From what has been stated above, it will be obvious that if university education is to progress on right lines and if the universities in India are to take their full share in the responsible task of building up the structure of higher education, a changed outlook in regard to the responsibility of the State and the public in the maintenance of these universities is essential. At the present time, the problems connected with university education loom large. The need for the expansion of educational facilities to meet the growing and imperative demand of a large section of the youth of the country, the urgency of opening out many branches of learning which hitherto found no place in a university system of education, the development of the facilities for postgraduate and higher education, and the great need to increase and stimulate research in all directions cannot obviously be ignored. Independent India cannot for long look to the more advanced countries for intellectual food and sustenance. The time has come when

2. Reference Section 23 taken from a Publication of the Bureau of Internal Revenue, dated 1943.

the Government and the leaders of public opinion must take stock of the situation and enable the universities to function so that they may largely be self-sufficient and self-reliant in all grades of intellectual pursuit. This does not, however, mean that there should not be free and constant contact with intellectual centres of learning wherever they may be situated, but it is a fundamental necessity to create opportunities for as much of self-sufficiency as possible in all spheres, educational and technological, in their widest bearing. How this can be effected is a task which we shall address ourselves to, and it will be for the Governments and responsible bodies to review the position from time to time.

8. *Expansion of Primary and Secondary Education:* In a review of the expansion of university education it is neither possible nor desirable to ignore the obvious need for expansion of primary and secondary education. It is unfortunately true that in spite of nearly a century of university education, there has been a very slow advance in the spheres of primary and secondary education, and literacy has not spread to 85 per cent of the population in the different parts of the country. In some quarters this has resulted in criticism of expenditure on university education, and not infrequently the remark has been made that extension of university education will lead to lopsided development so long as education is not broadbased and spread to every corner of the country by expansion of primary and secondary education. It cannot be gainsaid that a proper edifice of university education can be built only if literacy is widespread and primary and secondary education is extended to a very large proportion of the youth of the country, even if it cannot be made universal and compulsory. No one interested in university education can, therefore, afford to ignore the urgent demand for expansion of primary and secondary education, and any amount that may be expended for this purpose by the Government is a legitimate charge on the Government of any country and must be supported by all educationists. The danger, however, lies in the specious argument that till such primary and secondary education has spread all over the country, university education should not be given the financial assistance that is so necessary for its efficiency and sufficiency. It has not been infrequent that leaders of public opinion have in the several legislatures criticized expenditure on university education, little realising that the very basis on which primary and secondary education could be built and expanded must necessarily depend upon expansion simultaneously of university education.[3] We feel obliged to draw the attention of the public and the Government to this primary fact that the two are not contradictory but complementary, and any scheme of finance which will foster the expansion of primary and secondary education should necessarily imply financial help to university education also. This apart, the large part that university education has to play in the industrial and economic development of the country in the furtherance of trade and commerce, in the efficiency of the administrative services and in the wider fields of defence and foreign relations, makes it obvious that no Government can afford to ignore the demands of university education for the welfare and proper government of a country.[4]

III. Purposes for which Grants are needed

9. *Grants to British Universities:* A review of the financial position of universities in Great Britain and in most other European countries would reveal the fact that at present large grants

3. The trouble is that in India the expenditure on education is much less than what it should be. France spends 12 per cent of her total budget on education, Great Britain 11 per cent and India less than 5 per cent.

4. We may note the meagre proportion of university students in India (about 1 in 1,400) as compared with U.S.A. (1 in about 70) or Great Britain (1 in about 700). In South Africa there are five universities for a white population of two million. Canada has thirteen for 9 million and Australia seven for 5.5 million, while we have 25 for over 300 million.

See Appendix C (not inserted).

are needed from the Government to enable the universities adequately to perform the functions allotted to them. In May 1948 Sir Stafford Cripps in a message to the *Universities Quarterly* said:

'The darkness of the economic outlook gives no ground for economy in the sphere of university grants. The universities have a great contribution to make towards national economic recovery. We look to them to continue with unabated vigour the search for new knowledge and the education of increased numbers of young men and women from all classes of the community. For it is on the advances that we make in scientific knowledge and on the energy, initiative, directive capacity and courage of these young graduates that the economic future of the country will largely depend'.

Thus, in the year 1948, the Parliament of Great Britain allotted a sum of $12\frac{1}{2}$ million to the 19 universities in that country, and the Minister in Charge went further and stated that if there was a demand for increased grants, he would not hesitate to come forward to the Parliament and ask for such grants in the interests of higher education.

Let us consider the different purposes for which such grants are needed.

10. *Requirements of our Universities and Colleges:* We have already noted the needs of affiliated colleges many of which have had no grants from the government or only nominal grants since their foundation. These colleges cannot become proper institutions with an academic atmosphere until the government makes them grants to cover half of the salaries of sanctioned posts and one-third of the other expenditure. In our previous chapters we have mentioned the urgent requirements of the universities as regards the provision of laboratories, libraries, workshops, etc., and also the equipment. The problem has become particularly acute on account of the larger numbers seeking admission to the universities. Even if our suggestions about diverting the students after the secondary stage to the vocational institutions are carried out, the number at the universities ten years hence will be more than what they are today[5] and the financial difficulties being experienced today will be accentuated especially if the pupil-teacher ratio is to be lowered as it should be.

We have also emphasised in Chapter XI (not inserted) the necessity of having more and better accommodation for students' residences. It has been found difficult during the last few years to get the proper building materials for the construction of educational buildings of any kind. Shortage of materials will no doubt prove a limiting factor to the amount of new buildings which can be undertaken but it is hoped that with Government help in the shape of money as well as the quota of materials the needs of universities will be gradually supplied.

11. *Scholarships and other Awards:* The funds required for the provision of research personnel and scientific equipment have been referred to more than once and we have also mentioned the need for Scholarships and Fellowships. We may mention in this connection the recommendations of the working party of the Ministry of Education in England. They propose to raise the number of state scholarships from 800 to 2,000 per year, all universities and college awards from 1,200 to 2,000, and of local authorities, awards from 4,000 to 7,000. This is for England and Wales alone, excluding Scotland. If these recommendations are adopted it will mean that out of the 18,000 expected entrants to English and Welsh universities each year, 11,000 would get generous help from public funds. In this country the provision for financial help to deserving students has so far been extremely meagre. In most provinces about 10 per cent of the total enrolment is entitled to exemption from the payment of tuition fees, which means that the student is excused only one-fifth or one-sixth of his total expenditure, and has to make arrangement for the balance. The number (of) awarded government and university scholarships does not generally exceed 1 per cent and even these few are not paid more than a small fraction of their total expenses. In most provinces,

5. Cf., The Central Advisory Board Report on Educational Development: Chapter on University Education.

while the number of students has gone up many times and expenses of living have multiplied, the number and amount of the scholarships remain what they were 20 years ago. In order to remedy the state of things, we require a much bigger sum allotted in the university budget for scholarships, fellowships and maintenance grants. As a guide to our course of action we may say the proportion of assisted students in British Universities had increased in 1946-47 to no less than 67.9 per cent as a whole, while at Oxford and Cambridge over 82 per cent of the students today receive financial help. A good few of these are receiving grants under the Further Education and Training Scheme for ex-Members of the Armed Forces, but when these numbers decline it is expected that most of the recommendations of the working party will be put into effect. In 1938-39, out of the total expenditure on British universities, approximately 12 per cent was devoted to scholarships, studentships, etc. To this has to be added the awards of the State and the local authorities. The first item alone amounted to nearly a million pounds in 1938-39; today the total sum being spent on assistance to students is very much higher. Conditions in India are different from those in Great Britain and we may not emulate the British universities but it is essential that no meritorious student should be debarred on account of indigence from pursuing a university course. This will mean as a natural corollary that fees paid by students (Examination and Tuition fees) should not form such a large item in the income of universities.[6] The figures for students' fees given in Appendix N do not include those paid to affiliated and (in some cases) constituent colleges. Hence Appendix N (not inserted) does not give a complete picture of the dependence of the institutions on students' fees. We may contrast with this the fact that in British universities in 1946-47 fees provided only 23.2 per cent of the total income as against 32.5 in 1935-36. If our recommendations are accepted the percentage from fee income will be much lower than what it is today.

12. *Other requirements:* Our proposals regarding revised grades for university and college teachers will require a much larger sum than what has been spent so far. The Central Universities have recently been enabled with the help of subsidies from the Government to introduce the Central Advisory Board scales of salaries for the teaching staff. This is welcome, but it has made the position worse so far as most of the other universities are concerned, as it has led to a feeling of disappointment and uneasiness that some recognition should not have been given to teachers of these institutions. Our proposals regarding a lower student-teacher ratio will also involve considerable additional expenditure and for this too government help will be necessary. For the establishment of new universities we are making proposals in a subsequent chapter. The proposals made in Chapters IV and XI (not inserted) will require the remodelling of our pattern of teaching, extension of the activities of students and steps for their general welfare. All these will mean additional expenditure and each university will have to calculate the amount required for the items of our programme accepted by it. The money required will have to be provided by the state (Central or provincial) after a proper scrutiny of the calculations. This will involve a general revision of the education budgets of the provinces and the Central Government. In Appendix O (not inserted) we give the figures of total provincial expenditure and those for education. The proposals made in this Report are on the assumption that the acceptance of these will be followed by a substantial increase in the state expenditure on university education, the grant to each university depending on its working of the plans.

13. *Financing of New Universities:* We have pointed out in Chapter XIII (not inserted) that the old conception of an examining type of university is archaic, and a university, if it is to function properly, should have an atmosphere of intellectual stimulus, furthering research and fostering higher studies. In a chapter on Finance it is unnecessary to go into the conditions under which

6. There is at present some diversity between fees charged by different colleges and universities. Fees should be uniform as far as possible just as teachers' salaries should be uniform.

and the objects for which a university should be founded, but there need be little hesitation in stating that a university before it is founded should have adequate buildings, library, laboratories, research facilities and a funded capital for the maintenance of the atmosphere of study and research at the headquarters. If our suggestion regarding the exemption of educational contributions from income-tax is accepted, it may be possible to start new universities with some financial help from industrialists and other philanthropists, otherwise the State will have to be responsible for the capital grants as well as the recurring expenses.

IV. Grants - Central and Provincial.

14. *Requirements of Colleges:* From what has been stated in this and preceding chapters it will be obvious that unless substantial grants are made available to universities both from the Centre and the Provinces, the work of the universities will be seriously hampered. If one wanted to generalise one might say that while under-graduate education should be the concern of the provinces, post-graduate and research work should be the responsibility of the Centre. But one must not push this generalisation very far. In general, an indication has been given as to the purposes for which such grants may be expected. These purposes include among others the following:

(1) Building grants for Colleges and University Departments of study;
(2) Equipment grants;
(3) Library grants;
(4) Grants for halls of residence;
(5) Salaries of Professorial and other Teaching staff, including Provident Fund, Pensions etc.;
(6) Scholarships and Fellowships;
(7) Travelling Scholarships and Study leave;
(8) Grants for encouragement of research and post-graduate work, and Technical and Professional education in particular.

15. *Central responsibility for Universities:* The system of State grants and Federal grants to universities obtains in the United States of America. State grants are given to universities situated within the State or Province, but with a view to meeting all-India needs as well as to bringing about uniformity in regard to higher education, it is necessary and desirable that the Central Government should give grants for the various objects mentioned above, taking into consideration such Provincial Grants as may be made available. The Commission is aware that the Central Government has taken the responsibility of maintaining the three universities, Banaras, Aligarh and Delhi, and that a large amount of money has been given by way of grants to meet the needs of these universities. While welcoming and appreciating the grants that have so far been given, the Commission would suggest that even though the grants to other universities are mainly provincial responsibilities they should also be the concern of the Central Government at least so far as post-graduate education and research are concerned. The Commission has noted with appreciation that in certain directions grants have been given by the Government of India in recent years and they hope that there would be a more systematised method of giving these grants on the advice of a responsible body.

16. *Method of making Grants: the University Grants Commission* - The Government of India have in recent years constituted the University Grants Committee to advise on grants to be given for the Central Universities. At one time it was proposed that the University Grants Committee established by the Government of India should also be responsible for the grants to be made to other universities. The question of the principles that ought to govern State aid to universities has been dealt with at recent meetings of the Inter-University Board. The Commission's attention has been drawn to the resolution passed by the Sixth Quinquennial Conference on the principles which should govern state aid to universities. The resolution reads as follows:

'This Conference is of the opinion that the provision of adequate teaching, study and research on a university level is essential to the well being of a modern State. The Government of India and the Provincial Governments have therefore the responsibility of seeing that such provision is made. The Government of India and the Provincial Governments are requested to aid the universities on an increasingly generous scale with grants (both recurring and non-recurring) for carrying out schemes of expanding their present activities and for promoting research in all subjects.

While appreciating the efforts of the Government of India in helping the universities by their policy of making grants available to them through the University Grants Committee, this Conference is of opinion that the University Grants committee should be reconstituted on the general model of the University Grants Committee of the United Kingdom with a full-time Chairman.

To carry out its duties successfully the University Grants Committee should have an adequate Secretariat of its own so that applications for grants from the universities may be expeditiously dealt with and that it should be empowered to disburse the grants to the universities without the need for further reference to any Department of Government.

This Conference is of opinion that the principles of Grants-in-aid are not applicable to the universities.

While appreciating the policy of the Government of India and the Provincial Governments to assist the growth and expansion of university education by financial grants, this Conference places on record its emphatic opinion that the autonomy and independence of the universities receiving such grants should not in any way be interfered with'.

In Chapter XIII (not inserted) we have suggested the method of implementing this resolution and securing the object which the Government of India have in view through constituting the University Grants Commission.

We feel that the autonomy and the independence of universities in general is a matter which should be the concern not merely of the universities but of the Governments and of the public in general. Universities can play a great role only if it is appreciated both by the public and the Government that they function as autonomous units and are free to develop along well-established standards uncontrolled and uninfluenced by the changing waves of democratic passion. At the same time, it must be emphasised that the autonomy claimed by the universities should be understood as implying a greater amount of self-control and self-discipline and a sincere desire to work for the higher standards of intellectual integrity and morality.

We have referred to the system of Block Grants to universities, and we wish to emphasise the adoption of this system which enables the universities to utilise the Block Grants in the best manner possible. There should be no question of any lapse in any particular year and no question of hurried implementing of somewhat ill-considered schemes to prevent such lapse to the Government. Moreover, plans for the development of university education cannot be drawn in such a manner as to enable the authorities to give full effect to them within a particular year. We believe that the system that obtains in certain of the universities of Block Grants by Provincial Governments has worked so successfully that we have no hesitation in commending this system to the Central Government and to other Provincial Governments as well. It will, however, be understood that Block Grants are mainly intended for maintenance purposes while additional grants will be available for development schemes which are approved by the University Grants Commission from year to year.

We can only add that most of the recommendations of the University Education Commission will require adequate finance and unless such financial help is made available to the universities, it will be futile to expect anything substantial in regard to the improvement of university education in this country. It is with this hope that the Commission would appeal to the Central Government and Provincial Governments, to make available the necessary grants for this purpose. We realise as a result of our visits, that the University Grants Commission, on the lines suggested, would need to visit the different universities and some of their colleges and to make specific recommendations to the Government of India on the proposals made by such universities for grants from the Centre.

V. Financial Implications.

17. *Enrolment and per capita Expenditure:* In estimating the increased cost which will be involved in the implementation of the recommendations we have made, we have to make it clear that our figures are approximate and not exact. In the absence of complete data from the universities or the Governments, it is not possible for us to give exact figures. Our estimates must, therefore, be regarded as strictly tentative.

The university enrolment in 1944-45 was 1,97,000 and the total expenditure on collegiate education - Intermediate, Degree and Professional - was roughly 6 crore.

This works out an average of a little over Rs 300 per student.

Taking a few residential universities we find that the per capita expenditure in 1947-48 was Rs 970 and for a corresponding number of affiliating universities it was Rs 321, the average working out at Rs 408. The per capita expenditure on professional education is roughly double that on general education, and the expenses in the Science Faculty are higher than, sometimes as much as double those in the Arts Faculty.

If the Intermediate classes are separated from the University, then in many of the affiliating universities the university enrolment would diminish considerably, while in universities like those of Agra, Lucknow and Allahabad which have only degree classes, the numbers will increase. We may take it that the total increase in these universities, making allowance for the additional classes that will be formed, will be about one-third. The reduction in numbers in universities where the Intermediate classes are now treated as a part of the university course will be about one-third. Even if some universities retain the Intermediate classes in the degree colleges, the financial responsibility for these classes should be separated from that for the other classes. But we are sure that in a year or two the present strength in these universities will be reached.

18. *Teachers' Salaries:* The increase in expenditure on teachers' salaries will not be uniform in the different universities for the reason that scales of salaries in a university like that of Annamalai are much lower than those which prevail in other universities. The increase in expenditure on the salaries of teachers in many South Indian universities will have to be in a higher proportion than in North Indian universities.

Excepting in the affiliated colleges of the University of Delhi, the teachers' salaries in the affiliated colleges are much lower than those proposed by us. That means the expenditure on salaries in the affiliated colleges will be nearly double of what it is at present.

19. *Libraries:* The expenditure on libraries and laboratories will also have to be increased if teaching is to become effective. We have suggested about Rs 40 per student as the normal expenditure to be incurred on libraries. If this recommendation is adopted by all the universities and the affiliated colleges, the expenditure will be, in addition to what is being incurred at present, 4 per cent of the total budget. We are not in a position to give precise figures for the laboratory equipment. In many colleges which prepare students for science courses and professional degree, the laboratory and workshop equipment is thoroughly inadequate. Immediate steps will have to be taken to improve the position.

20. *Scholarships:* Our recommendation with regard to free places and scholarships may roughly work to about 15 per cent, of the total enrolment for free places, and 5 per cent for scholarships.

These items relate to increases of recurring character.

21. *Residential Accommodation:* We have already said that hardly 10 per cent of the students live in hostels. And if university life is to be real, we should provide for increased hostel accommodation. The expenses here will be of a non-recurring character and for such capital expenditure, the institutions would expect help of about 60 per cent cost of the total cost from the Governments in the shape of grants and loans.

We must work up to providing residential accommodation for at least 50 per cent of our students, i.e., for another 100,000 students. If we calculate the cost of building hostels at Rs 2,500 per student, it will come to Rs 25,00,00,000 (25 crore). Of this about Rs 1,000 per student may be expected to be provided for by the institution and the balance of Rs 1,500 will have to be met by the Government concerned. This building programme may be spread over a period of 5 years.

We estimate that this recurring expenditure and non-recurring expenditure will have to be incurred if proper university education is to be imparted to the existing number of students.

22. *Professional Education:* We cannot, however, overlook that the numbers for a country like ours, in general and professional education, will go on increasing and we may anticipate a doubling of the numbers in a period of 10 years. The expansion of professional education is an urgent necessity. And even there, if our growing needs are to be met, the number of professional institutions will have to be doubled in a period of 10 years. This may be regarded as a very modest ambition. We have referred to the financial aspects of the development of professional education in Chapter VII (not inserted). In these new institutions, especially the professional, capital expenditure will be very high. Here again private enterprise cannot be depended upon and the Government will have to provide at least 60 per cent of the capital expenditure.

23. *Annual Expenditure:* Taking up the annual recurring expenditure of the next 5 years with the total enrolment roughly at the present figure and the expenses according to the present scale (1947-48) we might expect it to be:

$250{,}000 \times 400 = 10$ crore.

Of this amount roughly 60 per cent would be on the salaries of the staff including research fellowships, the balance being divided between the administration, the library, laboratories, examinations, scholarships, etc.

According to our recommendations in regard to salary scale and a lower pupil-teacher ratio the expenses on this head will have to be increased by approximately 75 per cent. In place of the 6 crore at the present scale, the annual expenditure on salaries will amount to $10\frac{1}{2}$ crore.

If we spend Rs 40 per head on the library the total annual amount will be one crore.

On scholarships and free places the amount will be:

Scholarships: 12,500 × 600	75,00,000
Free Places: 37,500 × 250	93,75,000
	1,68,75,000

On research-work in connection with examinations we expect an annual expenditure of 5 lakh.

The present expenditure on administration in all the universities amounts to one crore of rupees. This may have to be increased by 25 per cent on account of revised scales of salaries for the administrative and subordinate staff and whole-time Vice-Chancellors in all universities. So the expenditure on this head we expect to be annually Rs 1,25,00,000.

The normal expenditure on examinations will continue to be about the same as before and we may estimate it to be one crore.

On the building programme for residential arrangements the annual expenditure for the next five years is expected to be five crore.

The expenses on laboratories and workshops are more difficult to estimate. We have no data before us to make even approximately accurate calculations. The development plans of each university will, however, be placed before the University Grants Commission and they will allocate the priorities. We hope, however, that two crore should be annually set apart for the next five years to be spent exclusively on laboratory building and equipment and on the fittings and buildings of workshops.

For the next quinquennium the total annual expenditure on these heads will be:

Teachers' salaries	10,50,00,000
Library	1,00,00,000
Scholarships, etc.	1,68,75,000
Examination research	5,00,000
Administration	1,25,00,000
Hostel Buildings	5,00,00,000
Laboratories and Workshops	2,00,00,000
	21,48,75,000

Of this amount the sum required for hostels, laboratories and workshops (seven crore annually for five years) is to be classed as non-recurring and capital grant and therefore in a different category from the others.

Of this roughly 60 per cent will have to be provided by the Government (Central and Provincial) and this amounts to Rs 8,69,25,000 recurring and Rs 4,20,00,000 non-recurring (to be paid annually for five years). The balance will be drawn from students' fees (30 per cent) and endowments etc. (10 per cent).

The total Government contribution will thus have to be about 10 crore more than what is being at present annually spent by the Government on university education.

VI. Recommendations:

24. We, therefore, recommend:

(1) that the State should recognise its responsibility for the financing of higher education;

(2) that the aid to private colleges should be for buildings and equipment as also for the recurring expenditure, the latter to be on a uniform basis, say half of the present teachers' salaries and a third of other approved expenditure;

(3) that steps be taken to amend Income-tax Laws to encourage donations for educational purposes;

(4) that additional grants be made to colleges and universities in order to enable them to give effect to our recommendations;

(5) that the Government should contribute an additional annual amount of about ten crore for the development of university education during the next quinquennium;[7]

(6) that the University Grants Commission be set up for allocating grants.

7. Government may have to provide additional funds for Intermediate classes which do not come within our purview.

REPORT OF THE EDUCATION COMMISSION, 1964-66

CHAPTER XIX

EDUCATIONAL FINANCE

19.01. In this chapter, we shall examine a few major issues relating to the financing of education. These will mainly include a survey of the growth of educational expenditure in India in the post-independence period and of the sources of educational finance. We shall also refer to the order of financial resources likely to be available for education during the next two decades, their appropriate allocation to various sectors and priorities involved. The questions of fundamental importance that arise are:

- What should be the total level of financial support for education at all levels to ensure achievement of national goals and rapid advancement of national economy, cohesion and security?
- What judgement and guidelines can be formulated, and with what degree of reliability and confidence, about the distribution of funds between different levels or stages of education (including research) and different sectors within a level?
- Although quality and quantity are inseparable, what proportions of the total resources should be broadly devoted to improvement of quality and consolidation and to the expansion of education?

These questions, by their very nature, do not permit of precise answers because they are not questions in arithmetic or production engineering but in human dynamics involving complex sociological considerations. Difficulties really arise when one tries to give precise values to quantities which are essentially vague. However, if dealt with in the proper perspective, the exercise affords insight and helps the process of decision making.

TOTAL EDUCATIONAL EXPENDITURE (1950-65)

19.02. The discussion may conveniently begin with an examination of the manner in which the total educational expenditure has increased in the post-independence period. In 1946-47, the total educational expenditure in 'British' India was Rs 577 million which worked out at only Rs 1.8 per head of population. At the end of the third plan, the total expenditure on education is estimated at Rs 6,000 million or approximately Rs 12 per capita (at current prices). The details will be found in Table 19.1.

Table 19.1. Total Educational Expenditure in India (1950-51 to 1965-66)

Sr. No. (1)	(2)	1950-51 (3)	1955-56 (4)	1960-61 (5)	1965-66 (estimated) (6)
1.	Total educational expenditure from all sources (Rs in million)	1,444	1,897	3,444	6,000
2.	Index of growth	100	166	301	524
3.	Educational expenditure *per capita* (Rs)	3.2	4.8	7.8	12.1
4.	Index of growth	100	150	244	378
5.	Total national income (at current prices) (Rs in million)	95,300	99,800	1,41,400	2,10,000
6.	Index of growth	100	105	148	220
7.	National income *per capita* (at current prices) (Rs)	266.5	255.0	325.7	424.4
8.	Index of growth	100	96	122	159
9.	Total educational expenditure as percentage of national income	1.2	1.9	2.4	2.9
10.	Index of growth	100	158	200	242
		First Plan	Second Plan	Third Plan	All three Plans
11.	Average annual rate of growth of total educational expenditure	10.6%	12.7%	11.8%	11.7%

Source: The educational data for 1950-51, 1955-56 and 1960-61 have been taken from Form A of the Ministry of Education. Those for 1965-66 have been estimated in the Commission's Secretariat. The data relating to National Income are taken from CSO (the figure for 1965-66 is a rough estimate).

N.B. The total educational expenditure given here does not include:

(1) expenditure incurred by the guardians of the students on their education, except fees paid;

(2) the 'opportunity costs' which are defined as the foregone income which would have been earned by the students if they had engaged themselves in some direct or indirect productive activity instead of attending the school;

(3) the expenditure figures of unrecognised institutions;

(4) the expenditure on pensions due to retired employees of Government in the Education Department (inclusive of teaching and non-teaching staff); and

(5) the expenditure on administration and other expenditure of private societies conducting educational institutions.

It will be seen that, during the first three plans:

— the total educational expenditure increased from Rs 1,144 million in 1950-51 to Rs 6,000 million in 1965-66, which denotes a total increase of 424 per cent in a period of 15 years or a cumulative annual increase of 11.7 per cent. This has varied but little from plan to plan - it stood at 10.6 per cent in the first plan, rose to 12.7 per cent in the second, and dropped to 11.8 per cent in the third.

— the total educational expenditure per capita rose from Rs 3.2 at the beginning of the first plan to Rs 4.8 at the end of the first, Rs 7.8 at the end of the second and Rs 12.1 at the end of the third - an overall increase of 278 per cent;

— the total educational expenditure represented 1.2 per cent of the national income in 1951. This proportion rose to 1.9 per cent at the end of the first plan, 2.4 per cent at the end of the second and 2.9 per cent at the end of the third. This represents an increase of 142 per cent in 15 years;

— the rate of growth of the educational expenditure in the first three plans (11.7 per cent) is 2.2 times the rate of growth of national income at current prices (5.4 per cent). It is 1.6 times the rate of growth of enrolment and 1.7 times the rate of growth in the number of teachers.[1]

19.03. Three points need emphasis in this context. The first is that the total educational expenditure given in the preceding table is at current prices. Unfortunately no effort has been made so far to convert the educational expenditure in the country to constant prices. We began this exercise, but it could not be completed due to absence of necessary data. We, however, recommend that such an exercise should be taken up and completed as early as possible. The UGC may consider giving financial assistance to a well-established department of economics of a university for this purpose. We may, however, point out that, during this period, the wholesale price index has risen by about 53 per cent and the cost of living index for the working classes by about 65 per cent. Although these indices cannot be used to reduce the total educational expenditure to constant prices, they indicate that a good deal of the increase in total educational expenditure is due merely to a rise in the price level.

19.04. The second point is that the proportion of national income devoted to education in India is small in comparison with that in educationally advanced countries of the world. The absolute amount per capita spent by us on education is about one-hundredth of that spent by a highly industrialised country like the USA. This reflects the close interaction and interlocking between the level of education and the level of industrialisation. Japan and the USA and the USSR are spending considerably more than 6 per cent of their GNP on education, about twice as much as India. In making international comparisons,

1. During this period, the total enrolment in educational institutions has increased from 24,287 thousand in 1950-51 to 70,292 thousand in 1965-66 which shows an average annual rate of growth of 7.3 per cent per year. The number of teachers has also increased from 798,192 in 1951-51 to 2,168,786 in 1965-66, which shows a rate of growth of 6.9 per cent per year.

however, one should not miss the important point that in countries with low levels of national incomes, the disposable surplus is much smaller and it is, therefore, far more difficult for them to make a given effort for education than for those countries which have a comparatively higher income per capita and in consequence, a larger disposable surplus. For instance, an educational expenditure of 3 per cent of the national income in India, where the national income per head is only about Rs 400, has to be regarded as a much higher degree of 'effort' than an expenditure on the same or even higher percentage of the national income in the UK or the USA.

19.05. The third point is that the increase of educational expenditure has been much faster than that of the growth of economy. The overall resources available to education are a function of two variables - ability or the national income per head of population and effort or the proportion of national income allocated to education. During the first three plans, ability has shown a relatively lower rate of growth. Between 1950 and 1965, the total national income rose from Rs 91,400 million in 1950-51 to Rs 1,63,600 million in 1965-66 (at 1960-61 prices) which implies that the national economy grew only at about 4 per cent per year and that the income per head of population increased only from Rs 256.5 to Rs 330.7 which implies a growth-rate of only 1.7 per cent per year. It is unfortunate, that, in 1965-66, there has been a bad failure of the monsoon so that the net national product in the primary sector has been very adversely affected and the total national income threatens to be about 3 per cent less than that in 1964-65. But even if this year is set aside, the growth in total national income between 1950-51 and 1964-65 would be only 4.5 per cent per year and that in the per capita income (from Rs 256.5 to Rs 348.7) only 2.2 per cent per year. Since the precise figures of educational expenditure at constant prices are not available, it is not possible to compare the rate of growth of ability, at constant prices, with the rate of growth of effort. But there is enough indirect evidence available to show that, even at constant prices, the rate of growth in educational expenditure far exceeds that in the national income.

19.06. A more precise comparison is however, possible at current prices. As shown in Table 19.1 the national economy has grown at 5.4 per cent per year during the first three plans while educational expenditure has grown at the rate of 11.7 per cent per year. The effort or the national income devoted to education has thus increased at more than twice the rate of ability or national income.

PATTERN OF EDUCATIONAL EXPENDITURE (1950-65)

19.07. We may now pass on to examine how the available financial resources are allocated to different sectors and programmes of education at present. From this point of view, the data regarding educational expenditure by objects for two years - 1950-51 and 1965-66 - are given in Table 19.2.

19.08. It will be seen that the indirect expenditure given in the preceding table (Table 19.2) is not divided according to different stages or sectors of education. We, therefore, divided this expenditure, on the assumptions given below, into two sectors - school and university. Our calculations are given in Table 19.3.

19.09. On the basis of the above break-up, the expenditure at the three levels of education will be as shown in Table 19.4.

Table 19.2. Educational Expenditure by Objects in India (1950-51 to 1965-66)

Object	Total Expenditure (Rs in 000's)		Percentage of Total Expenditure		Average Annual Rate of Growth
	1950-51	1965-66	1950-51	1965-66	
(1)	(2)	(3)	(4)	(5)	(6)
A. Direct Expenditure					
1. Pre-Primary Schools	1,198	11,000	0.1	0.2	15.0
2. Lower Primary Schools	3,64,843	12,20,500	31.9	20.3	8.4
3. Higher Primary Schools	76,990	7,17,500	6.7	12.0	16.0
Total (First Level)	4,43,031	19,49,000	38.7	32.5	10.4
4. Secondary Schools	2,30,450	11,81,000	20.1	19.7	11.5
5. Vocational Schools	36,944	2,50,000	3.2	4.2	13.6
6. Special Schools	23,335	39,920	2.0	0.7	0.0
7. Boards of Secondary, Intermediate Education	5,338	45,000	0.5	0.8	15.3
Total (Second Level)	2,96,067	15,15,920	25.9	25.3	11.5
8. Universities	49,052	2,70,000	4.3	4.5	12.0
9. Research Institutes	6,256	65,000	0.5	1.1	16.9
10. Colleges for Arts and Science	71,714	3,27,500	6.3	5.5	10.7
11. Colleges for Professional Education	42,194	3,50,000	3.7	5.8	15.1
12. Colleges for Special Education	2,224	17,500	0.2	0.3	14.7
Total (Third Level)	1,71,440	10,30,000	15.0	17.2	12.7
13. Total (Direct)	9,10,539	44,94,920	79.6	74.9	11.2
B. Indirect Expenditure					
14. Direction and Inspection	27,364	1,14,009	2.4	1.9	10.0
15. Buildings	99,270	6,66,055	8.7	11.1	13.5
16. Scholarships, Stipends, etc.	34,456	4,20,035	3.0	7.0	18.1
17. Hostels	18,264	95,463	1.6	1.6	11.7
18. Miscellaneous	53,928	2,09,518	4.7	3.5	9.5
19. Total (Indirect)	2,33,282	15,05,080	20.4	25.1	13.2
20. Grand Total	11,43,822	60,00,000	100.0	100.0	11.7

Source: Ministry of Education, Form A.

N.B. The educational expenditure given in Table 19.2 is divided into two categories - direct and indirect - in accordance with the classification adopted by the Ministry of Education. Some clarifications are, however, necessary to relate this classification to the usual classification of 'recurring' and 'capital' expenditure. All expenditure which is classified as 'direct' is recurring in character. All items of expenditure classified as 'indirect' are also recurring except in the case of 'buildings'. (This head includes all capital expenditure on buildings but does not include expenditure on their maintenance). Expenditure shown under hostels includes only the maintenance charges but does not include the capital expenditure on the construction of hostel buildings and the food charges of the inmates.

Table 19.3. Indirect Expenditure at School and University Stages

Sr. No.		1950-51		1965-66	
		Amount (Rs in 000's)	Percentage of Total Expenditure	Amount (Rs in 000's)	Percentage of Total Expenditure
(1)	(2)	(3)	(4)	(5)	(6)
	School Education				
1.	Direction and Inspection	27,364	2.4	1,14,009	1.9
2.	Buildings	39,708	3.5	1,33,211	2.2
3.	Scholarships	24,705	2.2	2,10,017	3.5
4.	Hostels	5,479	0.5	19,093	0.3
5.	Miscellaneous	26,964	2.4	1,04,759	1.7
	Total	1,24,220	10.9	5,81,089	9.7
	Higher Education				
1.	Direction and Inspection	-	-	-	-
2.	Buildings	59,562	5.2	5,32,844	8.9
3.	Scholarships	9,751	0.9	2,10,018	3.5
4.	Hostels	12,785	1.1	76,370	1.3
5.	Miscellaneous	26,964	2.4	1,04,759	1.7
	Total	1,09,062	9.5	9,23,991	15.4

N.B. (1) The expenditure on buildings has been divided, on the basis of general trends noticed, as 40:60 in 1950-51 and 20:80 in 1965-66.

(2) The break-down of the expenditure on scholarships for 1950-51 (actuals) is available. That for 1965-66 is an estimate made in the Secretariat of the Commission on the basis of present trends.

(3) The expenditure on hostels is largely at the university stage. It was divided, on the basis of general trends noticed, as 30:70 in 1951-51 and 20:80 in 1965-66.

(4) The miscellaneous expenditure was divided, on an *ad hoc* basis, in the proportion of 50:50.

(5) Totals do not tally due to rounding.

Table 19.4. Educational Expenditure by Level

(1)	(2)	1950-51 (per cent) (3)	1965-66 (per cent) (4)
1.	*First level, i.e.,* pre-primary, lower primary and higher primary schools	38.7	32.5
2.	*Second level, i.e.,* secondary, special and vocational schools and Boards of Secondary Education	25.9	25.3
3.	Indirect expenditure on school education	10.9	9.7
	Total	75.5	67.4
4.	*Third level, i.e.,* Universities, research institutions, and colleges of general, special and professional education	15.0	17.2
5.	Indirect expenditure on higher education	9.5	15.4
	Total (University)	24.5	32.6
		100.0	100.0

N.B. Totals do not tally due to rounding.

19.10. In the initial stages of development, the total expenditure on education is generally low and the bulk of it is spent on school education. As societies become industrialised, the total expenditure on education begins to grow and an increasingly larger part of it comes to be devoted to higher education and research. This broad trend is maintained in spite of the increase that takes place in the expenditure on school education on account of universalisation of primary education, expansion (or even universalisation) of secondary education, and the qualitative improvement of school education. The growth of educational expenditure in Japan as seen in Table 19.5, will show this clearly.

Table 19.5. Educational Expenditure in Japan (1885-1960)

Year	Distribution of Expenditure by Level of Education (percentage)					Percentage of GNP Spent on Education	GNP in million yen
	Elementary Education I-VI	Secondary Education VII-XII	Higher Education XIII and Above	Teacher Training	Total		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1885	84.3	2.8	8.3	4.6	100.0	1.8	612
1890	76.9	3.1	10.9	9.1	100.0	1.0	924
1900	67.6	16.5	7.0	8.9	100.0	2.1	1,997
1910	67.4	16.7	10.0	5.9	100.0	3.0	2,888
1920	67.6	17.6	10.9	3.9	100.0	2.5	11,845
1935	61.9	18.7	16.9	2.5	100.0	3.3	15,203
1940	55.7	21.8	20.1	2.4	100.0	2.1	32,183
1950	41.8	46.2	12.0	-	100.0	4.8	33,81,500
1960	42.4	44.5	13.1	-	100.0	5.2	1,18,21,700

Source: *Japan's Growth and Education*, Ministry of Education, Japan, 1963, Tables 10 and 14.

19.11. It will be seen that, in 1885, the expenditure on elementary education in Japan was as high as 84.3 per cent of the total. It has now come down to 42.4 per cent. (In Japan, the duration of the elementary course of education is six years as against seven years we are recommending). The expenditure on secondary education, which was only 2.8 per cent in 1885, has now risen to 42.5 [44.5?] per cent. (The course of secondary education in Japan extends over six years, for the first three years of which education is compulsory). In higher education, the expenditure has been steadily growing and risen from 8.3 per cent in 1885 to 13.1 per cent in 1960.

19.12. Some idea of the manner in which expenditure is distributed over the different levels of education in other countries can be had from Table 19.6.

19.13. The Indian picture in this context can be seen in the statistics given in Table 19.7.

Table 19.6. Percentage Distribution of Recurring Expenditure on Education by Level and Type of Education, 1961

Country	Central Adminis-tration	Pre-primary and 1st Level	Second Level			Third Level	Other Types of Educa-tion	Total
			Total	General	Vocational and Teacher Training			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Brazil	10.1	33.4	19.5	-	-	20.0	17.0	100.0
France	1.9	48.3	29.2	18.0	11.2(a)	8.3	12.3	100.0
Germany (F.R.)	1.5	48.1(b)	35.8	23.1	12.7(a)	13.2	1.4	100.0
Ghana	13.2	26.7	33.1	18.7	14.4	17.2	9.8	100.0
Nigeria	9.4	53.8	29.0	12.6	16.4	5.1	2.7	100.0
Pakistan	5.5	42.9	23.8	19.1	4.7	19.6	8.2	100.0
Turkey	-	61.3	32.4	13.4	19.0	1.4	4.9	100.0
U.K. (England & Wales)	4.1	27.1	38.8	31.5	7.3(a)	14.1	15.9	100.0
U.S.A.	-	72.4(c)	- (d)	-	-	27.6	-	100.0
U.S.S.R.	0.5	71.2(c)	- (d)	-	-	13.3	15.0	100.0
Yugoslavia (e)	4.5	58.3	19.3	-	-	16.1	1.8	100.0

Notes:- (a) Excludes expenditure on teacher training.
(b) Includes expenditure on special education.
(c) Includes expenditure on second level of education.
(d) Included under pre-school and first level of education.
(e) 1960.

Source: Complied by the Commission's Study Team from documents available in the UNESCO Secretariat, Paris.

Table 19.7. Growth of Educational Expenditure in India According to Objects (1881-1960)

(Rs in 000's)

(1)	(2)	1881-82 (3)	1891-92 (4)	1901-02 (5)	1911-12 (6)	1921-22 (7)	1936-37 (8)	1946-47 (9)	1960-61 (10)
1.	Primary Schools [b?]	7,087	9,614	11,876	20,726	50,908	81,260	1,84,853	7,34,461
		(44.0)	(31.5)	(29.6)	(26.4)	(27.7)	(29.9)	(32.1)	(21.3)
2.	Secondary Schools	3,912	9,896	12,684	20,789	48,727	81,300	1,70,230	11,18,336
		(24.3)	(32.4)	(31.6)	(26.5)	(26.5)	(29.9)	(29.5)	(32.5)
3.	Vocational and Special Schools (including training)	453	1,711	2,280	5,374	13,701	18,595	34,657	1,46,088
		(2.8)	(5.6)	(5.7)	(6.8)	(7.5)	(6.8)	(6.0)	(4.3)
4.	Boards of Intermediate and Secondary Education	..	..	..	..	..	324	974	24,133
							(0.1)	(0.2)	(0.7)
	Total (Schools)	11,452	21,221	26,840	46,889	1,13,336	1,81,479	3,90,714	20,23,018
		(71.1)	(69.5)	(66.9)	(59.7)	(61.7)	(66.7)	(67.8)	(58.8)
5.	Universities	163	473	772	1,588	7,341	13,208	22,977	1,41,388
		(1.0)	(1.6)	(1.9)	(2.0)	(4.0)	(4.9)	(4.0)	(4.1)
6.	Arts and Science Colleges	1,332	2,044	2,601	4,799	11,042	16,662	43,915	2,36,139
		(8.3)	(6.7)	(6.5)	(6.1)	(6.0)	(6.1)	(7.6)	(6.9)
7.	Professional and Special Colleges	..	829	1,197	2,253	5,978	8,138	18,659	1,67,166
			(2.7)	(3.0)	(2.9)	(3.2)	(3.0)	(3.2)	(4.9)
	Total (Universities)	1,495	3,346	4,570	8,640	24,361	38,008	85,551	5,44,693
		(9.3)	(11.0)	(11.4)	(11.0)	(13.2)	(14.0)	(14.8)	(15.9)
8.	Direction & Inspection	1,628	2,250	2,545	4,775	9,335	11,407	18,238	70,123
		(10.1)	(7.4)	(6.3)	(6.1)	(5.1)	(4.2)	(3.2)	(2.0)
9.	Buildings	838	2,182	2,573	9,730	19,761	18,197	28,453	4,28,158
		(5.2)	(7.1)	(6.4)	(12.3)	(10.8)	(6.7)	(4.9)	(12.4)
10.	Scholarships	399	727	912	1,340	3,176	(a)	(a)	2,00,222
		(2.5)	(2.4)	(2.3)	(1.7)	(1.7)			(5.8)
11.	Miscellaneous	298	794	2,681	7,219	13,784	22,766	53,657	1,71,711
		(1.8)	(2.6)	(6.7)	(9.2)	(7.5)	(8.4)	(9.3)	(5.1)
	Total (Indirect)	3,163	5,953	8,711	23,064	46,056	52,370	1,00,348	8,70,214
		(19.6)	(19.5)	(21.7)	(29.3)	(25.1)	(19.3)	(17.4)	(25.3)
	Grand Total	16,110	30,520	40,121	78,593	1,83,753	2,71,857	5,76,613	34,43,801
		(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)

Notes: The figures in parentheses indicate the percentage to total expenditure.

(a) Included under Miscellaneous.

(b) Includes expenditure on pre-primary schools also.

It will be seen that before independence the position remained more or less stationary in India for a period of about sixty years - the direct expenditure on school education decreasing only from 71.1 per cent in 1881-82 to 67.8 per cent in 1946-47 and that on higher education rising only from 9.3 per cent to 14.8 per cent during the same period. The position, however, changed radically with the attainment of independence. Steps began to be taken for industrialisation and hence greater expenditure was incurred on higher education, science and scientific research, technical and technological education, etc. By 1965-66, therefore, expenditure on higher education increased considerably. As will be seen from the data given in paragraph 19.09 earlier, the present position is that about one-third of the total expenditure is devoted to the first level of education; another one-third is devoted to the second level and to the indirect expenditure on school education; and the remaining one-third is devoted to higher education.

SOURCES OF EDUCATIONAL EXPENDITURE (1950-65)

19.14. We shall now proceed to examine the sources of educational expenditure during the first three plans. Due to various historical reasons, a multi-source finance system has grown in the country and education is now financed by the Central Government, State Governments and local authorities, and through fees and 'other' sources which include endowments, donations and other voluntary contributions from the public. This has helped to raise more resources in the aggregate than would otherwise have been possible and has also shown a certain resilience in times of difficulties by setting off, to some extent, the shortfalls in one source by increase in others. Table 19.8 shows how the contribution of each source has increased during the first three plans.

Table 19.8. Educational Expenditure in India by Sources (1950-51 to 1965-66)

(1)	Source (2)	1950-51 (3)	1955-56 (4)	1960-61 (5)	1965-66 (estimated) (6)
1.	*Government Funds*				
(i)	Total expenditure (Rs in 000's)	6,52,678	11,72,049	23,40,914	42,71,856
(ii)	Index of growth	100	179	359	655
(iii)	Percentage of total expenditure on education	57.1	61.8	68.0	71.2
2.	*Local Authorities' Fund*				
(i)	Total expenditure (Rs in 000's)	1,24,987	1,63,548	2,24,914	3,78,031
(ii)	Index of growth	100	131	180	302
(iii)	Percentage of total expenditure on education	10.9	8.6	6.5	6.3
3.	*Fees*				
(i)	Total expenditure (Rs in 000's)	2,33,272	3,79,033	5,90,258	9,18,077
(ii)	Index of growth	100	162	253	394
(iii)	Percentage of total expenditure on education	20.4	20.0	17.1	15.3
4.	*Other Sources*				
(i)	Total expenditure (Rs in 000's)	1,32,885	1,81,980	2,87,715	4,32,036
(ii)	Index of growth	100	137	217	325
(iii)	Percentage of total expenditure on education	11.6	9.6	8.4	7.2
5.	*Average Annual Rate of Growth*	First Plan	Second Plan	Third Plan	All Three Plans
(i)	Government funds	12.4	14.8	12.8	13.3
(ii)	Local authorities' fund	5.5	6.6	10.9	7.3
(iii)	Fees	10.3	9.2	9.2	9.6
(iv)	Other Sources	6.5	9.6	8.5	8.1

Source: Ministry of Education, Form A.

It will be seen that the largest increase has taken place in the expenditure from government funds (555 [655?] per cent or an average annual growth of 13.3 per cent) - this is only to be expected - and they now contribute 71.2 per cent of the total expenditure as against 57.1 per cent in 1950-51. Consequently, the contribution of all other sources has proportionately declined, although it has increased in absolute terms. The next important source is fees whose contribution has increased by 294 [394?] per cent (or 9.6 per cent per year); it now accounts for 15.3 per cent of the total educational expenditure. Then come other sources whose contribution has increased by 225 [325?] per cent (or 8.1 per cent per year) and which now bear only 7.2 per cent of the total expenditure. The local authorities whose resources are inelastic, particularly in rural areas, account for 6.3 per cent of the total expenditure only and they also show the lowest increase in contribution - 202 [302?] per cent (or 7.3 per cent per year).

SOURCES OF EDUCATIONAL EXPENDITURE (1965-85)

19.15. What would be the probable developments relating to sources of educational expenditure in the next 20 years? It will be seen from the above that the responsibility for the financing of education at all stages is falling increasingly on government funds (Central and State). This trend will increase in the future. The total revenue from fees will be considerably reduced when, as we have recommended elsewhere,[1] education up to the end of the lower secondary stage is made tuition-free and a much larger provision of free-studentships is made in higher secondary and university education to meet the needs of the young persons from the under-privileged sections of society who are now coming into the universities and colleges. Similarly, the income from other sources would not rise in proportion to the increase in total educational expenditure. The local authorities also may not be able to provide more than a very small percentage of the total expenditure, even after they have made the best effort to raise their contribution. Taking an overall view of the situation, therefore, it appears that the funds of the Central and State Governments would have to bear about 90 per cent (or even more) of the total educational expenditure.

19.16. While it is true that most of the responsibility for the support of education should thus be squarely placed on governmental funds, a total centralisation of all financial responsibility for education would also not be desirable, because it deprives the agencies at the school and local levels of all initiative in the matter. Even though the resources thus raised may not be large, the provision of administrative arrangements under which such initiative can exist and is even encouraged is of very great educational significance and will stimulate parental and local interest in education and help to raise standards. We, therefore, recommend that attempts should continue to be made to raise as much contribution as possible from local communities, voluntary organisations and local authorities to support educational development.

19.17. **Contribution of Local Communities:** We have recommended earlier that the local communities should be closely associated with all government and local authority schools and that a school fund should be established in every school to meet the whole or part of the non-teacher costs.[2] We have further recommended that as part of the organisation of a nation-wide programme of school improvement, the assistance of the local communities should be fully harnessed for improving the physical facilities in schools on the lines of the school improvement conference organised in Madras State.[3] In the case of private schools, we have suggested that the management should be able to raise a fair proportion of all the non-recurring costs and in addition, a prescribed percentage of recurring costs.[4] Apart from their principal advantages of stimulating local interest in education, these contributions from the local communities and the public will also help to some extent in financing education.

19.18. **Contributions of Local Authorities:** The local authorities - municipalities and zila [zilla?] parishads - will be able to make a fair contribution in support of educational development. In our opinion, it would be possible to maximise these contributions if a suitable system of grant-in-aid is adopted. The broad features of such a system are indicated in Supplemental Note I given at the end of this chapter (not inserted).

19.19. **Contribution of Voluntary Organisations:** The voluntary organisations conducting educational institutions are also making a contribution to total education expenditure. This can be stimulated and utilised for the purpose of development through appropriate policies of grant-in-aid. We have discussed these issues separately for school and higher education elsewhere.[5]

19.20. **Centre-State Relationship in the Financing of Education:** Between them, the Centre and the State Governments now contribute about 71 per cent of the total education expenditure; and as stated above, this will rise to 90 per cent by 1985-86. The problem of Centre-State relationship in the financing of education is thus of great importance. We have discussed it, in the appropriate contexts, in the earlier chapters of this

1. Chapter VI (not inserted).
2. Chapter X (not inserted).
3. Chapter X.
4. Chapter X.
5. Chapters X and XIII (not inserted).

Report. A brief reference to it has also been made in Supplemental Note I given at the end of this chapter (not inserted).

TOTAL EDUCATIONAL EXPENDITURE (1965-85)

19.21. We now come to the more difficult part of our task, namely, to estimate the magnitude of the resources likely to be available for educational development during the next 20 years, and the best manner of their allocation to different sectors or stages of education.

19.22. **Estimate of Resources Likely to be Available for Education During the Next Twenty Years:** In comparison with the last 15 years, the programme of educational development to be undertaken during the next two decades will be greater in magnitude and hence the total educational expenditure will have to increase much more. This would be possible only if there is increase both in ability and effort. The rate of growth of the economy has to be speeded up during the next two decades and this should be combined with a programme of population control. Also, the effort to increase allocations to education should be intensified. As stated earlier, it is difficult to be precise about these matters. We should, however, broadly work towards increasingly the educational expenditure *per capita*, in a period of 20 years, to between 4 and 5 times the present level of Rs 12 (at constant prices). This could be reached by a variety of combinations of different assumptions about the three variables involved, namely, economic growth (varying from 5 per cent to 7 per cent per annum), population growth (varying from 1.5 per cent to 2.5 per cent per annum) and the proportion of national income devoted to educational expenditure (varying from 4 per cent to 6 per cent). What we have in view, however, are developments on the following lines:

Table 19.9. Total Educational Expenditure (1965-85)

(1)	(2)	1965-66 (3)	1970-71 (4)	1975-76 (5)	1980-81 (6)	1985-86 (7)
1.	National income at 1965-66 prices - Increase assumed at 6 per cent per annum (Rs in million)	2,10,000	2,81,000	37,600	5,03,000	6,73,000
2.	Index of growth	100	134	179	240	320
3.	Population estimates (Medium projection in million)	495	560	630	695	748
4.	Index of growth	100	113	127	140	151
5.	National Income per head of population (Rs)	424	502	597	724	900
6.	Index of growth	100	118	141	171	212
7.	Total educational expenditure (Rs in million) (increase assumed at 10 per cent per annum)	6,000	9,663	15,562	25,063	40,364
8.	Index of growth	100	161	259	418	673
9.	Percentage of total educational expenditure to national income	2.9	3.4	4.1	5.0	6.0
10.	Index of growth	100	117	141	172	207
11.	Educational expenditure *per capita* (Rs)	12.1	17.3	24.7	36.1	4.0
12.	Index of growth	100	143	204	298	446

19.23. It will be seen that we have assumed a middle position with regard to the growth of national income (at 6 per cent per year as between the two other estimates of 5 and 7 per cent per year). Our assumption regarding the growth of population is also a medium estimate (2.1 per cent per year between 1966 and 1985 as against the two other estimates of 1.5 and 2.5 per cent per year). With regard to the proportion of national income devoted to education, we have assumed the highest rate of 6 per cent (out of the three possible assumptions of 4, 5 and 6 per cent) because we should accord the highest priority to education and allocate the largest proportion of GNP to it. We thus get a medium estimate of Rs 54 per head of population by 1985-86. In this connection, chart on page 475 may also be seen (not inserted).

It should, however, be noted that these assumptions cover a wide range of *per capita* costs:

(1) If national income grew at 5 per cent per year, population at 2.5 per cent per year and 4 per cent of national income were allocated to education, the expenditure on education in 1985-86 would be only Rs 27.5 *per capita.*

(2) If national income grew at 7 per cent per year, population at 1.5 per cent per year and 6 per cent of national income were allocated to education, the expenditure on education in 1985-86 would be as high as Rs 75.1 *per capita.*

The figure of 6 per cent of GNP invested in education by 1986 may seem to be an ambitious target. We do not quite hold this view. It is only in recent years that nations, realising the deep and symbiotic link between education and national prosperity, have been increasing rapidly their investments in education and this trend is likely to continue. At the beginning of this century even 'advanced' countries such as the USA spent no more than a small fraction of their GNP on education. By 1986, it is likely that a figure of 10 per cent of GNP invested in education will become common-place in most countries. If total and comprehensive disarmament is achieved by then, as we all hope it will be, the figure for the developing countries may even exceed 10 per cent; and it is only through some such action that the dismal and dangerous gap between the poor and rich countries can be reduced to tolerable dimensions.

19.24. It has been suggested that in early stages of educational development the rate of growth of educational expenditure ought to be approximately twice the rate of growth of national income. In our exercise, however, we have postulated a relatively more modest annual rate of growth of 10 per cent for educational expenditure relative to the assumed rate of growth of 6 per cent in national income. It should thus be possible to implement the schemes of educational expenditure at postulated levels even in the face of shortfalls in the rate of growth of national income. It may be added that the basis of such projections is the expected pattern of individual and collective consumption behaviour as incomes increase, combined with the educational effort needed for sustaining higher levels of economic activity.

19.25. What will be the pattern of allocation of resources to different sectors of education in future? In our view, this pattern will change from decade to decade.

(1) In the first decade, an emphasis on a larger allocation to the school stage is needed. In the first place, it is necessary to upgrade the salaries of school teachers. The allocation needed for this purpose will be very large, partly because of the large numbers involved and partly because of the size of the increment which has to be given without delay. Secondly, we are proposing to transfer the PUC and the Intermediate classes from the university to the school stage. Thirdly, there is an urgent need to provide at least five years' of effective education to all children in the country. Fourthly, it is equally necessary to vocationalise secondary education.

(2) In the second decade, seven years' of effective primary education will have to be provided. Secondly, emphasis will have to be placed on adding one year to the school stage and vocationalising secondary education. But the additional allocation required for the purpose is not relatively so large as in the first decade and the emphasis will shift a little in favour of higher education.

(3) In the third decade, the programmes at the secondary stage will be nearing completion and the emphasis will shift very largely to the development of higher education and research. As time passes, this trend is likely to continue. In this connection, chart on page 477 (not inserted) may also be seen.

19.26. A tentative estimate of the expenditure required for school and higher education in 1975-76 and 1985-86 has been attempted and will be found in the Supplemental Notes II and III given at the end of this chapter (not inserted). It will be seen therefrom that about 72 per cent of the total expenditure in 1975-76 will be allocated to school education and that higher education will get about 27 per cent instead of about 33 per cent as at present. We would like to point out, however, that this reduction in the proportion of educational expenditure devoted to higher education is more apparent than real. A large part of the expenditure on higher secondary (PUC) stage which has been shown here under 'school' is at present classified as being under 'university'. If due allowance is made for this - this expenditure is of the order of 4 or 5 per cent of the total - it will be seen that the school gets only about two-thirds of the total expenditure as in the past. In the second decade, the expenditure of school education is reduced to 65.9 per cent or about two-thirds of the total. Consequently, higher education will receive a larger allocation.

19.27. It has been argued before us that, in view of the urgency to develop higher education, it may be desirable to go slow with primary education for some time and to invest more of the available resources in secondary and higher education. Some have also argued the other view that we should develop primary education as rapidly as possible and at any cost. The Sargent Plan for instance, allocated two-thirds of the total resources to primary education. These are extreme views. We realise the need for the development of higher education and for the allocation of more resources to it. But it would not be proper to cut down for this purpose the expenditure on primary education. As we have repeatedly stressed in the Report the provision of universal primary education is vital on grounds of social justice and to help the process of transformation of the national economy. Again development of higher education and research is central to the entire developmental programme; and without an adequate provision for higher education there will be no adequate supply of competent teachers for primary and secondary eduction. What we want is a balanced growth of education. There seems to be no alternative but to adopt the broad pattern of allocation of resources suggested above.

EXPENDITURE PER STUDENT

19.28. **Pattern of Cost Per Student in the First Three Plans:** We shall now turn to a consideration of the expenditure per pupil at each level of education. This depends upon three factors: the average annual salary of a teacher (a); the pupil-teacher ratio (t); and the expenditure on all non-teacher costs which can be expressed as a percentage of the average salary of a teacher (r). Symbolically, it can be stated as follows:

$$\text{Cost per pupil} = a\frac{(1+r)}{t}$$

where a = average annual salary of a teacher.
r = ratio of non-teacher costs to teacher's salary
t = pupil-teacher ratio

All these factors have undergone changes in each sector during the last fifteen years with the result that the overall cost per student (direct expenditure only) has increased from Rs 37 per student in 1950-51 to Rs 64 per student in 1965-66 (at current prices) or by 73 per cent. But if allowance is made for the rise in the cost of living (which is about 65 per cent), the rise in real terms becomes almost negligible. The detailed statistics in this regard are given in Tables 19.10 A and B.

19.29. The problem of the salaries of teachers has already been discussed in Chapters III and XVII (not inserted). With regard to the other factors, some important conclusions arise from these data.

(1) The cost per pupil/student does not show appreciable increase, except in professional colleges and vocational schools. Even here, if allowance is to be made for the rise in prices, there is actually a fall in expenditure in real terms.

(2) At the pre-primary stage, the cost per pupil has remained almost stationary. It implies that in real terms, the investment per student has gone down very greatly.

(3) At the lower primary stage, the cost per student has gone up by 50 per cent. But, at constant [current?] prices, this also implies a fall in real terms. The non-teacher costs per pupil have actually fallen, even at constant [current?] prices. That is why our primary schools are so dull and drab. In fact, in many primary schools we give hardly anything except the teacher! The picture at the higher primary stage is similar.

(4) Expenditure per student in colleges of arts and science shows some increase in current prices, but a fall in real terms.

Table 19.10 A. Average Annual Cost Per Pupil (1950-51)

Type of Institution	Average Annual Salary Per Teacher (Rs)	Number of Pupils Per Teacher	Percentage of Non-teacher Costs to Teacher Costs	Average Annual Cost Per Pupil		
				Due to Teacher Costs (Rs)	Due to Non-teacher Costs (Rs)	Total (Rs)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Pre-Primary Schools	914	25	51.3	37	19	55 [56?]
Lower Primary Schools	545	34	24.6	16	4	20
Higher Primary Schools	682	24	32.0	28	9	37
Secondary Schools	1,258	25	44.8	50	23	73
Schools for Vocational Education	1,705	16	86.8	106	92	197
Schools for Special Education	715	13	98.5	55	54	109
Universities (Teaching Departments)	3,759	10	N.A.	N.A.	N.A.	N.A.
Colleges of Arts & Science	2,696	20	73.7	133	98	231
Colleges of Professional Education	13,948	11	118.1	357	422	779
Colleges of Special Education	1,656	8	48.6	203	99	301
Total - Direct Expenditure				25	12	37

N.B. Totals do not tally on account of rounding of figures.
Source: Ministry of Education, Form A.

Table 19.10 B. Average Annual Cost Per Pupil (1965-66)

Type of Institution	Average Annual Salary Per Teacher (Rs)	Number of Pupils Per Teacher	Percentage of Non-teacher Costs to Teacher Costs	Average Annual Cost Per Pupil		
				Due to Teacher Costs (Rs)	Due to Non-teacher Costs (Rs)	Total (Rs)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Pre-Primary Schools	1,000	31	56.3	35	20	55
Lower Primary Schools	1,046	38	11.1	27	3	30
Higher Primary Schools	1,087	31	12.4	40	5	45
Secondary Schools	1,959	25	37.0	78	29	107
Schools for Vocational Education	2,887	15	100.0	208	208	417
Schools for Special Education	991	12	66.7	81	54	135
Universities (Teaching Departments)	6,500	12	N.A.	N.A.	N.A.	N.A.
Colleges of Arts & Science	4,000	20	63.8	200	128	328
Colleges for Professional Education	6,410	11	100.0	583	583	1,167
Colleges for Special Education	2,918	12	42.9	245	105	350
Total - Direct Expenditure				46	18	64

N.B. Totals do not tally on account of rounding of figures.
Source: Ministry of Education, Form A.

19.30. **The Pattern of Cost Per Student During the Next Twenty Years:** A tentative estimate of expenditure in the different sectors of school education during the next twenty years is discussed in Supplemental Note II at the end of the chapter (not inserted). A similar but still more tentative estimate for higher education has been given in Supplemental Note III at the end of the chapter (not inserted). We shall now briefly discuss their implications and limitations.

19.31. **School Education:** It is comparatively easy to estimate the expenditure on school education because (1) the teacher costs form a proportionately larger part of the total expenditure, (2) the non-teacher costs can be more accurately estimated, (3) there is no variety of courses to be provided at the primary stage, and (4) even at the secondary stage, the variety of courses to be provided in vocational education is comparatively limited and does not show wide variations of costs. These estimates, therefore, are more reliable and better guides to the formulation of educational policies.

19.32. Table 19.11 gives the total estimated expenditure on school education and Table 19.12 gives its implications in terms of teachers' salaries, pupil-teacher ratios, levels of non-teacher expenditure, and maintenance of quality institutions.

Table 19.11. Expenditure on School Education (1975-76 and 1985-86)

	Total Expenditure (Rs in 000's)		Percentage of Total Expenditure	
	1975-76	1985-86	1975-76	1985-86
(1)	(2)	(3)	(4)	(5)
1. Recurring (Direct)				
Pre-Primary	2,36,956	4,88,531	1.5	1.2
Lower Primary	37,49,220	61,29,616	24.1	15.2
Higher Primary	24,51,567	51,40,287	15.8	12.7
Total	64,37,743	1,17,58,434	41.4	29.1
Lower Secondary				
General	20,72,510	44,90,088	13.3	11.1
Vocational	3,59,800	25,82,550	2.3	6.4
Total	24,32,310	70,72,638	15.6	17.5
Higher Secondary				
General	4,88,436	12,81,299	3.1	3.2
Vocational	8,23,900	23,62,250	5.3	5.8
Total	13,12,336	36,43,549	8.4	9.0
Total Recurring (Direct)	1,01,82,389	2,24,74,621	65.4	55.7
2. *Recurring (Indirect)*				
Direction and Inspection	3,89,050	16,14,560	2.5	4.0
Scholarships	3,01,680	14,90,240	1.9	3.7
Total	6,90,730	31,04,800	4.4	7.7
3. *Recurring (Direct and Indirect)*	1,08,73,119	2,55,79,421	69.9	63.4
4. Capital Buildings and Equipment	3,89,050	10,08,890	2.5	2.5
Total School Education	1,12,62,169	2,65,88,311	72.4	65.9

N.B. Totals do not tally due to rounding of figures.
For details, see Supplemental Note II at the end of the chapter (not inserted).

Table 19.12. Expenditure on School Education (1975-76 and 1985-86)

Year	Average Annual Salary Per Teacher	Number of Pupils Per Teacher	Percentage of Non-Teacher Costs to Teacher Costs	Average Annual Cost Per Pupil		
				Due to Teacher Cost	Due to Non-Teacher Cost	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Rs			Rs	Rs	Rs
		Pre-primary Education				
1950-51	914	25	51.3	37	19	55
1965-66	1,000	31	56.3	35	20	55
1975-76	1,800	40	50.0	50	25	74
1985-86	2,500	40	50.0	69	34	103
		Lower Primary Education				
1950-51	545	34	24.6	16	4	20
1965-66	1,046	38	11.1	27	3	30
1975-76	1,800	50	20.2	43	9	52
1985-86	2,500	45	19.6	67	13	80
		Higher Primary Education				
1950-51	682	24	32.0	28	9	37
1965-66	1,087	31	12.4	40	5	45
1975-76	2,100	35	20.0	73	14	87
1985-86	2,875	35	20.0	99	20	119
		Lower Secondary Education (General)				
1950-51*	1,258	25	44.8	50	23	73
1965-66*	1,959	25	37.0	78	29	107
1975-76	3,150	25	33.3	152	51	203
1985-86	4,150	25	33.3	201	67	268
		Lower Secondary Education (Vocational)				
1950-51**	1,705	16	86.8	106	92	197
1965-66**	2,887	15	100.0	208	208	417
1975-76						500
1985-86						600
		Higher Secondary Education (General)				
1975-76	4,500	20	33.3	272	91	363
1985-86	5,500	20	33.3	333	111	444
		Higher Secondary Education (Vocational)				
1975-76						700
1985-86						800

Notes: (i) The costs for the years 1950-51 and 1965-66 are at current prices and those for 1975-76 and 1985-86 are at constant prices of 1965-66.
(ii) For details, see Supplemental Note II at the end of the chapter (not inserted).
(iii) Totals do not tally on account of rounding of figures.
* High/Higher Secondary Schools
** All types of vocational and technical schools.

19.33. We would specially invite attention in to the following implications of these estimates:

(1) *Total Expenditure on School Education.* The total expenditure on school education is expected to increase from Rs 4,046 million (or 67.4 per cent of the total expenditure) in 1965-66 to Rs 11,262 million (or 72.4 per cent of the total expenditure) in 1975-76, and Rs 26,588 million (or 65.9 per cent of the total expenditure) in 1985-86.

(2) *Capital Expenditure on School Education.* The bulk of this expenditure will be recurring. The capital expenditure on school education will increase from Rs 133 million (or 2.2 per cent of the total expenditure) in 1965-66 to Rs 389 million (or 2.5 per cent of the total expenditure) in 1975-76, and to Rs 1,009 million (or 2.5 per cent of the total expenditure) in 1985-86.

(3) *Pre-Primary Education.* The average annual salary of teachers is expected to rise from Rs 1,000 in 1965-66 to Rs 1,800 in 1975-76 and Rs 2,500 in 1985-86. The pupil-teacher ratio is proposed to be raised from 31 in 1965-66 to 40. The average annual cost per student which was Rs 55 in 1965-66, would be raised to Rs 74 in 1975-76, and Rs 103 in 1985-86. It will be noticed that the cost per student is higher at the pre-primary stage than at the primary stage because of the need to provide meals and other health services.

(4) *Lower Primary Education.* The average annual cost per student was only Rs 20 in 1950-51 and it rose to Rs 30 in 1965-66 (at current prices). If allowance is to be made for increase in prices, there would be an actual fall. What is now proposed is to raise this cost substantially, at constant prices, to Rs 52 in 1975-76 and to Rs 80 in 1985-86.

It should be remembered that, at this level of expenditure, all that is possible is to provide free books to all children and the necessary contingencies to primary schools. No provision has been made in these estimates for school meals, school uniforms or health services. The average annual salaries of teachers will rise from Rs 1,046 in 1965-66 to Rs 1,800 in 1975-76 and Rs 2,500 in 1985-86. This, we regard, is the minimum essential. The pupil-teacher ratio is proposed to be raised from 38 in 1965-66 to 50 in 1975-76 by the adoption of the three-hour session system. This is inescapable if a living wage is to be given to the primary teachers. If smaller classes are considered desirable, either additional funds will have to be found or the rate of expansion will have to be deliberately slowed down.

It may be incidentally pointed out that the average class-size in compulsory primary education bears a definite proportion to the effective birth-rate (i.e., children per thousand of population entering the age-group 5-6 when admission to primary school begins). In other words, class-size (on the assumption that the salary of a primary school teacher is 3 to 4 times the per capita GNP) in compulsory education generally lies between 1.5 and 2.0 times the effective birth-rate. When the birth-rate in India falls down to somewhere between 15-20, it will be easily possible to reduce the class-size to somewhere between 30 and 35. But smaller class-sizes at the present level of birth-rate will be costly and beyond the economic capacity of the country.

It should also be emphasised that we have provided 10 per cent of the primary schools at optimum levels of quality, i.e., at about twice the cost per pupil than in the average school. It will be possible to maintain these schools at a level of efficiency of the next higher stage, i.e., higher primary education and to provide them with trained graduates as headmasters and larger grants for non-teacher expenditure.

(5) *Higher Primary Education.* The general picture at this stage is similar to that at the lower primary stage.

We expect the headmasters of these schools to be trained graduates (it has been assumed that there would be one trained graduate to three other teachers) and hence the average annual salary of a teacher is a little higher than that at the lower primary stage.

The pupil-teacher ratio is proposed to be raised from 31 to 35 and maintained at that level.

The cost per pupil will rise from Rs 45 to Rs 87 by 1975-76 and still further to Rs 119 by 1985-86 (at 1965-66 prices).

As at the primary stage, provision has only been made for free supply of books and contingencies and there is no provision for school meals, uniforms or health services.

It has been assumed that 20 per cent of the total enrolment would be in part-time courses.

(6) *Lower Secondary Education.* The average annual salary of teachers which stood at Rs 1,959 in 1965-66 is proposed to be increased to Rs 3,150 by 1975-76 and Rs 4,150 by 1985-86. The pupil-teacher ratio remains unchanged at 25. The cost per pupil which rose from Rs 73 in 1950-51 to Rs 107 in 1965-66 (at current prices) is expected to rise, at constant prices, to Rs 203 in 1975-76 and to Rs 268 in 1985-86.

(7) *Higher Secondary Education.* At this stage, the average annual salary of teachers will be Rs 4,500 in 1975-76 and Rs 5,500 in 1985-86. The pupil-teacher ratio has been assumed at 20. The cost per student is expected to rise to Rs 363 in 1975-76 and to Rs 444 in 1985-86.

(8) *Vocational Education.* Provision has been made for vocational courses both at the lower secondary and higher secondary stages as recommended in the relevant chapters of the Report. The cost per pupil has been assumed on an *ad hoc* basis. To be accurate, it will be necessary to cost each vocational course separately. But the necessary data for this were not available to us.

(9) *Quality Institutions.* As at the lower primary stage, provision has been made to maintain about 10 per cent of the institutions at each stage at optimum levels of efficiency. In other words, it is assumed that in 10 per cent of the institutions at each stage, the cost per pupil will be about double that in the ordinary schools at that stage.

The levels of expenditure per pupil given above certainly mark a great improvement over the existing situation. But they are, by no means, what can be wished for. It is, however, evident that these are probably the highest levels of expenditure which we might be able to afford.

19.34. **Higher Education:** We must confess that in the case of higher education it is even more difficult to prepare reliable estimates and forecasts of costs. All the same, we have made a tentative exercise in costing the programme of higher education for 1975-76 and 1985-86 at the constant prices of 1965-66. The details, as stated earlier, will be found in Supplemental Note III at the end of this chapter (not inserted). Its main conclusions are shown in Tables 19.13 and 19.14.

19.35. The following comments about Table 19.14 are in order. We have assumed that:

(1) at the undergraduate stage, the cost per student will be Rs 733 for about 40 per cent of the enrolment (in arts and commerce courses) and Rs 1,500 for 60 per cent of the enrolment (in quality institutions in courses in arts and commerce and in science and vocational courses) in 1975-76. For 1985-86 the corresponding figures would be Rs 917 and Rs 2,000, respectively. Even these costs will be possible in full-time education, only if at least 30 per cent of the total enrolment is in courses of part-time and correspondence education.

(2) at the postgraduate stage, the cost per student will be Rs 3,000 for about 40 per cent of the enrolment (in arts and commerce courses) and Rs 5,000 for the remaining 60

per cent for the enrolment (in quality institutions in arts and commerce and in science and vocational courses) in 1975-76. The corresponding figures for 1985-86 would be Rs 3,600 and Rs 6,000, respectively. As at the undergraduate stage, these expenditures would be possible in full-time postgraduate education, if at least 30 per cent of the enrolment is provided for in part-time and correspondence courses.

(3) The funds available for capital expenditure are far from adequate, especially in the next few years. Ordinarily, about 20 to 25 per cent of the total expenditure on higher education should be available for buildings and major equipment. Instead of this, only 15.8 per cent of the total expenditure on higher education will be available for capital programmes in 1975-76. Fortunately, the position improves by about 1985-86 when the proportion of capital expenditure rises to about 25 per cent.

Table 19.13. Expenditure on Higher Education (1975-76 and 1985-86)

Sr. No.	Type of Education	Total Expenditure (Rs in 000's)		Percentage of Total Expenditure	
		1975-76	1985-86	1975-76	1985-86
(1)	(2)	(3)	(4)	(5)	(6)
1.	*Recurring (Direct)*				
	Undergraduate				
	Arts and Commerce	4,53,516	9,74,963	2.9	2.4
	Science and Vocational	14,39,250	32,64,000	9.2	8.1
	Total	18,92,766	42,38,963	12.2	10.5
	Postgraduate				
	Arts and Commerce	3,04,200	11,06,400	1.9	2.7
	Science and Vocational	8,20,000	29,37,000	5.3	7.3
	Total	11,24,200	40,43,400	7.2	10.0
	Total Recurring (Direct)	30,16,966	82,82,363	19.4	20.5
2.	*Recurring (Indirect)*				
	Scholarships	6,28,200	24,16,200	4.0	6.0
3.	*Total Recurring (Direct and Indirect)*	36,45,166	1,06,98,563	23.4	26.5
4.	*Capital*				
	Buildings and Equipment	5,76,855	26,73,486	3.7	6.6
	Total (Higher Education)	42,22,021	1,33,72,049	27.1	33.1

N.B. Totals do not tally due to rounding of figures.

For details, see Supplemental Note III at the end of the chapter (not inserted).

Table 19.14. Average Annual Cost Per Pupil in Higher Education (1950-51 and 1985-86)

Type of Institution	Average Annual Salary Per Teacher (Rs)	Number of Pupils Per Teacher	Percentage of Non-Teacher Costs to Teacher Costs	Average Annual Cost Per Pupil		
				Due to Teacher Cost (Rs)	Due to Non-Teacher Cost (Rs)	Total (Rs)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Undergraduate						
(a) Arts and Commerce						
1950-51*	2,696	20	73.7	133	98	231
1965-66*	4,000	20	63.8	200	128	328
1975-76	6,000	15	66.7	440	293	733
1985-86	7,500	15	66.7	550	367	917
(b) Science and Vocational						
1950-51**	3,948	11	118.1	357	422	779
1965-66**	6,410	11	100.0	584	583	1,167
1975-76	-	-	-	-	-	1,500
1985-86	-	-	-	-	-	2,000
Postgraduate						
(a) Arts and Commerce						
1975-76	10,000	8	118	1,375	1,625	3,000
1985-86	12,000	8	118	1,650	1,950	3,600
(b) Science and Vocational						
1975-76	-	-	-	-	-	5,000
1985-86	-	-	-	-	-	6,000

* All types of Colleges for Arts and Science (Intermediate to Postgraduate).

** All types of Vocational/Professional Colleges.

N.B. For details, see Supplemental Note II at the end of the chapter. Some actual costs per student in a few universities and colleges are given in Supplemental Note IV at the end of the chapter (both not inserted).

19.36. From the data we have been able to collect regarding cost per student in institutions of higher education which are known to maintain good standards, it appears that this order of expenditure per student will be far from adequate. At the undergraduate stage, we broadly require an expenditure of the order of Rs 1,000 per student; and if 10 per cent of the institutions are to be maintained at optimum levels of quality, i.e., at ten times the cost per pupil, the average cost per student at the undergraduate stage will have to be about Rs 2,000. The capital cost at this stage will be about Rs 5,000 per student. At the postgraduate stage, a capital expenditure of the order of about Rs 25,000 to Rs 30,000 per student is needed and the recurring cost will have to be as high as Rs 6,000 to Rs 7,000 per student. As at the undergraduate stage, this expenditure also would be doubled if 10 per cent of the institutions are to be maintained at optimum levels of quality i.e., at about ten times the cost per student. It is thus obvious that if an earnest attempt is to be made to maintain adequate levels of quality in higher education and to raise at least a few institutions to international standards, we will have to find large additional resources. If that is not possible, we shall have to come to grips with difficult problems of the following type:

(1) Would it be possible to reduce the total enrolment in higher education? This will involve the consideration of a number of problems such as relating the output of educational institutions to forecasts of man-power needs; improving organisation and administration in the public and private sectors to ensure that every educated person is fully and properly utilised; reducing unemployment among the educated; increasing the participation rates among the educated persons; revising the present

policies which are based on 'over education', e.g., educating an engineer and using him for jobs which can really be done by technicians; etc.

(2) Would it be possible to reduce the number of places to be provided in full-time education so that a larger expenditure per place could be incurred? This will involve a serious attempt to expand part-time and correspondence education and to provide these facilities to about 50 per cent of the total enrolment as is done at present, for instance, in the USSR.

(3) Would it be possible to economise the expenditure in terms of physical and financial investment without affecting standards? This will involve problems of intensive utilisation of existing facilities; cooperative use of costly equipment by a number of institutions; manufacture of equipment in the country itself; etc.

These and other problems of this type are as important as they are difficult. At the moment we run away from them by diluting standards and maintaining the expenditure per student at low levels - a device which provides an easy escape valve. In any attempt to raise standards and the expenditure per pupil, these problems will have to be squarely faced and resolutely tackled.

19.37. **Adult Education**: Our proposals for the development of adult education (including liquidation of adult illiteracy) are given in Chapter XVII (not inserted). For these programmes, we propose an increasing provision which will rise to about Rs 78 million a year (or 0.5 per cent of the total expenditure) in 1975-76 and Rs. 404 million a year (or 1.0 per cent of the total expenditure) in 1985-86.

19.38. **Total Expenditure:** Table 19.15 gives the total estimated expenditure - recurring as well as capital - on all stages and sectors of education for 1975-76 and 1985-86.

Table 19.15. Educational Expenditure by Objects in India (1975-76 and 1985-86)

Object	Total Expenditure (Rs in 000's)		Percentage of Total Expenditure	
	1975-76	1985-86	1975-76	1985-86
(1)	(2)	(3)	(4)	(5)
Recurring				
Pre-Primary	2,36,956	4,88,531	1.5	1.2
Lower Primary	37,49,220	61,29,616	24.1	15.2
Higher Primary	24,51,567	51,40,287	15.8	12.7
Lower Secondary	24,32,310	70,72,638	15.6	17.5
Higher Secondary	13,12,336	36,43,549	8.4	9.0
Direction and Inspection	3,89,050	16,14,560	2.5	4.0
Scholarships	3,01,680	14,90,240	1.9	3.7
Total (School)	1,08,73,119	2,55,79,421	69.9	63.4
Undergraduate	18,92,766	42,38,963	12.2	10.5
Postgraduate	11,24,200	40,43,400	7.2	10.0
Scholarships	6,28,200	24,16,200	4.0	6.0
Total (Higher Education)	36,45,166	1,06,98,563	23.4	26.5
Adult Education	77,810	4,03,640	0.5	1.0
Total (Recurring)	1,45,96,095	3,66,81,624	93.8	90.9
Capital				
School Education	3,89,050	10,08,890	2.5	2.5
Higher Education	5,76,855	26,73,486	3.7	6.6
Total (Capital)	9,65,905	36,82,376	6.2	9.1
Grand Total	1,55,62,000	4,03,64,000	100.0	100.0

Note: Totals do not tally due to rounding of figures.

SOME GENERAL OBSERVATIONS

Whatever the assumptions one might make regarding the growth of national income or the proportion of GNP to be allocated to education, it is evident that, in the foreseeable future, it will not be possible to provide monetary resources for education which can compare with what is being done in the industrialised countries. We have assumed that the total educational expenditure would rise, at constant prices, from about Rs 12 per capita in 1965-66 to about Rs 54 per capita in 1985-86. But even this can bear no comparison to the level of educational expenditure already reached in some industrialised countries. For instance, this expenditure is about Rs 244 (11,700 yen) in Japan, Rs 295 (193.63 francs) in France; Rs 378 (45.35 roubles in the USSR; Rs 515 (£ 24.55) in the UK and Rs 1,175 (156.73 dollars) in the USA.[1] The gulf between these levels of educational expenditure and ours is and will continue to be so wide that we cannot hope to solve our problems by the mere adoption of the techniques of the industrialised countries.

19.40. In a situation of this type, we can hope to obtain optimum results only if we adopt action on two lines. The first is that we should strive to allocate the largest proportion of GNP possible to educational development. Since additional resources are generated largely through the process of economic growth, the fact that education tends to augment the flow of national product, though with some time-lag, is of crucial importance. It follows, therefore, that in the long run education to some extent is self-financing because the increased incomes generated by a relatively better educated labour force would provide resources for greater allocations to education.

19.41. The second is the need to realise the simple but elementary point that it is impossible to create an educational system which would meet the individual and national needs if conventional techniques, existing practices of under-utilisation and wastage were to continue. It would, therefore, be necessary to make every rupee go the longest way possible by adopting measures for economy, for reduction of wastage, and for intensive utilisation. These should receive the greatest emphasis and the most earnest consideration. The manner in which this can be done has been indicated in the appropriate context in earlier chapters. Even at the risk of some repetition, however, we would enunciate a few of the points which are significant from the financial point of view:

(1) The utmost economy possible should be practised in the construction of buildings.
(2) The cost of equipment could be reduced considerably by better designing, large-scale production, improvisation and careful handling to increase its life.
(3) Techniques in which certain facilities could be shared in common by a group of schools (i.e., a circulating library for rural primary schools) should be encouraged and adopted on a large-scale.
(4) Where equipment and facilities become costly and sophisticated, they should be intensively and cooperatively utilised for the largest part of the day and throughout the year.
(5) Whenever possible, educational buildings should be put to use for as long as possible in the day and wherever needed, at night as well.
(6) Larger classes and higher pupil-teacher ratios are inevitable for some years to come, and it would only be a disservice to education to adopt the practices of affluent societies in this regard. In a developing economy, we must accept these as facts of life and meet their challenge through the development of appropriate techniques and hard work.
(7) There is no justification for the continuance of the large wastages which now prevail at every stage. Their reduction should be a definite national target and to that end, programmes for the active involvement of

1. All figures are for 1962. The conversion into rupees has been done at the post-devaluation rates of exchange.

each individual institution in the process should be encouraged. This is the only way to meet the situation.

(8) The working day should be longer and the number of working days should be increased. The vacations should be utilised as fully as possible and designated as vacation 'terms'.

(9) Programmes of part-time and own-time education should be organised on as large a scale as possible to meet the increasing demand for education from workers as well as from those who cannot be provided with a place in full-time institutions.

(10) The education of the gifted children should be attended to on a top priority basis.

(11) With a view to raising quality all round and in all institutions in the shortest time possible, it is essential to concentrate resources, in the immediate future, on the development of some centres of excellence and quality institutions at all stages of education, particularly in secondary and higher education. This programme should be given a very high priority.

(12) Places in full-time institutions of secondary and higher education should be provided with due regard to manpower needs and maintenance of standards and admissions to them should be made on the basis of an egalitarian selection.

(13) Sectors of education which have a multiplying effect like postgraduate studies or teacher education or those which have a direct relationship with an increase in productivity such as agricultural and technical education, or those which tend to decrease wastage or intensity utilisation.

(14) Wasteful expenditure which often arises from rigidities of administrative and financial procedures should be avoided by introducing flexibility and adequate decentralisation of authority.

(15) Greater emphasis should be placed on programmes which need more of human talent, dedication and hard work (such as preparation of textbooks, teaching and learning aids, research, etc.) than on those which involve large investment of physical and financial resources.

(16) A vigorous attempt should be made to establish institutions of optimum size at all levels of education because these would be more efficient and less costly.

19.42. Since an underdeveloped economy cannot aspire to match the levels of per capita educational expenditure of the developed ones, the problems of educational reconstruction in India can be tackled only on the basis of an approach which meets our special situation. A mere imitation of some of the techniques and programmes of education in developed societies will not meet our requirements. The complexity of our problems, and the necessity of connecting education with life, particularly productivity, have to be identified and solutions worked out which take care of the specific needs of the country. It is our firm view the while a careful study of major educational developments in other countries is essential to enable us to draw upon their experiences, there is no substitute for original, hard and serious thinking involving in a sustained and serious effort to make our meagre resources go the longest way possible.

19.43. This implies emphasis on research in all sectors of education. Our general proposals for the development of educational research have been discussed elsewhere.[1] Here, we would only highlight the need to conduct research in the problems of economics and financing of education which are only just receiving the attention of economists and educationists in our country. Among other things, there is urgent need to examine continually the relationship between cost and quality and to develop programmes which would obtain the highest possible quality for a given level of input (or minimize inputs for a given level of quality). We recommend that the UGC should provide financial support for the development of such studies in a few selected

1. Chapter XII (not inserted).

universities and that a similar programme for the school stage should be developed in the NCERT and the State Institutes of Educations.

19.44. The estimates of total educational expenditure given above are admittedly tentative. As we have emphasised, extensive research is needed on the study of unit costs and educational productivity. In the light of these studies, these estimates will have to be continually revised. Moreover, it is likely that they will be attacked on both sides. On the one hand, some persons would argue that they are on the low side and that they will have to be upgraded substantially if education of the appropriate quality and in adequate quantity is to be provided. On the other hand, they will also be attacked on the ground that they are over-ambitious and unrealistic. What is important, however, is that a national system of education on the lines indicated in the Report is organised without delay and an earnest effort is made to provide all the needed resources for the purpose. In doing so, of course, many hard choices will have to be faced and risks taken. But in an age of science, there can be no greater risk than a policy of drift and niggardliness in education.

REVIEW ARTICLE*

COOPERATION DISCOVERED, LOST AND REDISCOVERED(?)

R.V. Nadkarni

Cooperation in the sense or a group of persons working together on the basis of mutual aid for attaining an objective commonly shared by them has been a feature of human social life, as ancient as the human race itself. It is not known when exactly such cooperation was discovered. But it has been resorted to in different human communities from time to time for a variety of purposes. Often the groups engaged in such cooperative activities are informal but with a code of behaviour commonly accepted and acted upon by those forming or joining the group, though without any specific rules and regulations formally adopted by the group and recognised by any external authority. Some groups are purely temporary getting dissolved on attainment of a specific objective. Others are of a continuing nature lasting as long as the members feel the need, evince interest and participate in the group activity. There are instances of such groups continuing to function successfully for long. There are also instances of groups becoming dormant or getting dissolved owing to lack of interest of the members or failure of the members to abide by the initially accepted code of behaviour or inability to face and overcome unfavourable external forces. Some groups run into difficulties owing to internal dissensions, mismanagement by those to whom the management is entrusted by the group or fraudulent practices by those placed in key positions.

When such groups began to be formed in commercialised and industrialised communities, they experienced difficulties in conducting their activities purely with mutual understanding and hence adopted formal rules and regulations for their own organisation and the conduct of their activities. Further step was to seek assistance of the state by way of provision of legal basis for their organisation and operation. Law, conferring on them the status as legal entities with perpetual succession and the right to sue and the liability to be sued, also provided for some measure of control in public interest. Thus, many informal cooperative self-help and mutual-aid groups came to have by stages formal character and legal status.

Cooperative groups, both informal and formal, have gone through various vicissitudes. Some succeeded, some failed. But Cooperation as a concept and its practice have been there in all ages and in all climes. Cooperation has not been 'lost' or forgotten necessitating any efforts to 'rediscover' it. Hence christening the theme for research and the National Seminar that followed in 1995-96 as 'Rediscovering Cooperation' by the Institute of Rural Management, Anand (IRMA) would appear to be a case of mis-titling.

Having made this initial remark, it must be stated that the exercise undertaken by IRMA to organise a nationwide collaborative research on a wide variety of cooperative organisations and self-help groups is highly commendable. Over 100 research papers were reported to have been received which, after review by the reviewers, were sent back to the authors for revision in the light of the reviews. Of the 68 revised papers 59 were finally accepted for presentation and discussion in the Seminar. These 59 papers covered in 1,300 pages were published in three volumes - the first on the sub-theme 'Bases of Cooperation' with 17 papers including a review of three books on Cooperatives in India and another review of some theoretical propositions on the Emergence and Survival of Cooperation; the second on the sub-theme 'Strategies for the Models of Tomorrow' with 18 papers; and the third on the sub-theme 'Cooperatives in the Emerging Context' with 24 papers. To review these papers in a short article is a challenging task. It is rendered a little easier by the excellent connective summary the editor Rajagopalan has given in the opening pages (xv to xlv).

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* *Rediscovering Co-operation: Volume I - Bases of Co-operation, Volume II - Strategies for the Models of Tomorrow, Volume III - Co-operatives in the Emerging Context,* (Ed.), R. Rajagopalan, Institute of Rural Management, Anand, Gujarat, India, 1996, Pp. (Volume-wise) xlv+320, xlv+480, xlv+500, Price: Rs 1000/-.

I

In the first volume, *Bases of Co-operation*, in the very first paper, 'Ethics in Cooperatives: In Search of a Theory' S.K. Chakraborty, Convenor, Management Centre for Human Values, Indian Institute Of Management, Calcutta attempts to delve into the very foundations of Cooperation, though he confesses that he knows 'next to nothing about the cooperative movement, in any of its dimensions, whether in India or elsewhere'. According to him cooperation is essentially a 'process of ethico-moral culture' and the spirit of Cooperation is 'giving naturally, spontaneously' for the 'sheer feeling of joy in giving' in contra-distinction to 'negotiation', 'calculative bargaining' and 'grabbing' which are unethical. While Cooperation does not encourage, permit or condone 'selfishness' and 'grabbing', it is not in its essence, 'selfless giving' '*Nishkam Karma*' which is charity. Cooperation does not expect eschewing self-interest. It is in fact for protecting and promoting self-interest, though adjusting it with the collective interest of the group constituting the cooperative. It is not 'egoless'. But it is also not 'egocentric'. It involves 'ego control' in the 'mutuality' in which lies the strength of Cooperation. The steps he suggests for laying true ethical foundations for cooperatives in respect of selection of employees, election of directors, designing the organisation, nurturing interpersonal relations, and education of members and employees are non-controversial. Similarly his point that as the size of the institution increases the 'emotional bonding' and 'participative spirit' gets diluted cannot be disputed.

Swatija Manorama (Paranjape) in her paper, 'Restructuring the Evolutionary Paradigm: From Scarcity and Competition to Cooperation and Plen(t)itude' questions the validity of the Malthusian theory built on the premise of scarcity of resources and the Darwinian theory of competition and struggle to have access to the scarce resources in which the fittest could survive. She puts forth the theory of 'plentitude' - solar energy which is plentiful and which contributes to the renewable resource of vegetative growth, combined with human energy to think, innovate and change which is also plentiful, obviates the need for competition and makes for impartial and fair sharing, coexistence and cooperation. How far is this formulation valid? If resources are plentiful enough for all and to spare, there is no need for either competition or 'fair sharing'. Sharing is to avoid unfair appropriation of scarce resources by some. Need for cooperation also arises where the strong appropriate resources and the weak who can not secure access to these resources individually seek to secure the same through collective cooperative action. So need for cooperation arises not in a situation of plenty but in situations of scarcity of resources.

Supriya Roy Chowdhury of the Institute of Social and Economic Changes, Bangalore, in her paper, 'Rethinking Cooperation: Towards a Non-Essentialist Conception' addresses herself to the question: in what ways cooperatives can be conceived of as being not only as ideology or a set of micro institutions but as political/social theory. While social and political theory of capitalist State emphasised 'centrality of individual interests' and the State created under 'Social Contract' provided a peaceable framework within which individuals could pursue their competitive interests, Marxism propounded that the Socialist State by taking over ownership of productive resources would resolve social conflicts between groups or classes propelled by their respective economic interests. Cooperative philosophy offered an alternative theoretical base postulated on the premise of human capacity for mutuality and reciprocity - individuals pooling their resources, operating collectively and sharing equitably the fruits of collective enterprise, the State having no role. But as against this theoretical proposition of hers, she puts forth empirical evidence thrown up by studies of a few selected cooperatives regarding interplay of individual and group interests and the role of leadership. This shows that there is resurgence of individual interests eclipsing group interests as in cooperative farming. It also shows how domination of leaders, however honest and dedicated they might reputedly be, distorts the spirit of equality in participative democratic management even in cooperatives which are otherwise successful. Human nature exhibits both selfishness and capacity for mutuality and reciprocity, and cooperatives to be successful have to strike a right balance or equilibrium. This brings out the fact that practice often tends to deviate from the principles and it needs constant vigilance and effort to get practice conform to the principles.

Sakarama of National Dairy Development Board (NDDB) in his paper, 'Pattern of Values of Rural Cooperative Leaders in India' based on the study of five District Cooperative Milk Unions in four states, gives his findings that the leaders were dynamic, sincere, used their position and contacts to help the followers in 'getting things done'. But the predominant values were materialistic - wanting to achieve higher positions of power, influence and patronage or at least to continue in their present positions. But the study does not examine whether the leaders had understood what the values in Cooperation are and if they had, whether they had tried to extend that understanding to their followers and how far the cooperatives - their leaders and members - in their conduct and operations conformed to these values.

Sankar Datta of IRMA in his paper, 'Management of Cooperatives - A Third Sector Perspective' views cooperatives as normative organisations formed when the normative concerns of a group (what the group feels 'should be') are not matched by the outcomes in the market which is characterised by profit maximisation nor by the public services and goods provided by the State. The cooperatives work on the principle of shared values and concerns without the driving force of profit or the coercive power of the State. So far so good. But it is not clear when he states under 'Goal Clarity' that the cooperatives have a 'complex system of stakeholders' with the consequence that their goal statement tends to be ambiguous. In every cooperative the members have dual stakes - 1) in the services provided by the cooperative, and 2) in the capital provided by them to their cooperative, which cannot be regarded as complex. The goal of every cooperative has to be clearly to provide to the members services needed by them at as low a cost as possible. Similarly, his contention that the pricing policy of a cooperative, when it cannot ascertain the exact cost of a specific service, stands in the way of generating resources, is difficult to appreciate. Though cooperatives might want to provide services to the members at cost with no intention to secure 'profit' at the cost of the members, since such meticulous calculation is not possible, they provide for a safety margin to avoid losses and this margin is available either fully or partially for building up internal resources through retained savings.

D.D. Tewari of the University of Natal (South Africa) in his 'Economics of a Cooperative Firm', drawing distinction between a private firm and a cooperative firm, states that the former is concerned with 'profit maximisation' while the latter is with both 'profit and welfare of members'. The entire discussion is on this premise that cooperatives have to maximise profit plus welfare. But essentially a cooperative promotes 'welfare' of the members by providing them services at as low a cost as possible. If the price charged for the service is equal to the cost of the service there would not be any surplus or profit generated for payment to the members whether as patronage or as return on the equity in addition to the 'welfare' or benefit of service. Just as in an investor owned firm the investor is concerned with only profit and not welfare, in a cooperative the member is primarily concerned with welfare and not profit.

Studying cooperatives from the Sociological angle, V.N. Pandey of the Tata Institute of Social Sciences, Mumbai finds that 'Social Context' and the 'Text of the Cooperatives' (structure and activities) act and react upon one another. Taking the case of Primary Agricultural Cooperative Societies (PACS) he shows how they are initiated and supported by the State and how on the other hand the beneficiaries of cooperative action exerted influence on the State to initiate, continue and enlarge policies and programmes favourable to cooperatives under the plea of 'Social Justice'. He also shows how the struggle for power between different social groups aspiring to get dominant position has caused fractures in a number of PACS resulting in their breakdown. He characterises cooperatives as concrete social action against structural impediments and sees in them the potential to change the currents of market forces.

As against this perceived potential, S. Mitra of Contai Polytechnic and D. Lahiri of the Taki Government College, West Bengal, in their paper on 'Expectations from Cooperatives' bemoan that these have been belied or misplaced. According to the authors cooperatives are expected to protect and secure for the producer members the surplus over and above their subsistence requirements which the exploitative moneylenders and traders extract. But when they tend to succeed in doing so, they attract more persons in similar circumstances asking for such cooperative services which results in pushing down the surplus to the subsistence level. So they recommend restriction on the entry to cooperatives, or diversification of their activities to absorb the newcomers. But where a large number of producers are below subsistence level even if cooperatives could help them to reach the subsistence level they should be happy. Debarring their entry would condemn them to the present misery. Diversification would create problems of management.

K.V. Raju of IRMA in his paper 'Dairy Cooperatives and Economic Rationality' first gives in brief the 'Logic of Collective Action' the 'Theory of Groups' put forth by Mancur Olson that individuals having common interests forming or joining a group to promote these interests do not automatically engage themselves in collective action. Apart from the collective group interests, the members constituting the group have their individual interests as well and therefore selective incentives are needed to motivate them and to mobilise for group action, as they weigh costs and rewards. Incentives and motives could be economic as well as non-economic. He then considers the incentives that might be helpful in the dairy cooperatives, both at the primary and the federal levels, with reference to resource endowment and opportunities in a particular region, size and location of the dairy plant, matching of individual capabilities and activity demands, sharing of costs, benefits and power. The proposal to link capital contribution to the need for the services of the cooperative is helpful as it is in fact already in practice in credit cooperatives where members are required to hold share capital in proportion to the borrowings. But so far as voting power is concerned, while prescribing a reasonable minimum level of utilisation of services (patronage) could be a condition for eligibility, linking voting power to the extent of 'patronage' would put the small members under permanent domination of the big. His prescription that federations should be reconstituted with the unions or primaries as 'constituent parts' and not as 'autonomous units with their own identity' is difficult to understand. The very concept of a federation is that the federating units do not merge their identity but retain their individual identity and autonomy, though they delegate some of the functions and powers to the federation where the collective action through the federation would be more advantageous than their individual actions.

Other papers in this volume deal with organisation structure and operations of cooperatives rather than with concepts, basic values or theories.

Atindra Sen, from India Administrative Service (I.A.S.) in his paper, 'Why Cooperatives? An Institutional Explanation from the Indian Sugar Industry', pinpoints the major problem of the sugar industry as matching deliveries of cane of the required quality in required quantities and at required times with the crushing capacity utilisation and maximisation of sugar production by the sugar factory. He shows that sugarcane growers' cooperative has built-in advantages over the joint stock factory or state-owned factory. The success of the cooperative sugar factory depends upon the effective coordination between the decisions and operations of the member farmers and the decisions and operations of the factory.

P.H. Mahammad of the University of Hyderabad in his paper on the Yemmiganur Weavers' Cooperative Society traces the rise and decline of the society, highlighting the role of a dynamic, powerful and influential leader in its formation and growth, combined with social homogeneity among the members and political support. The decline followed the demise of the leader and change in the political set up in the state.

Gopal Krishan of the Punjab University in his paper, 'Transmuting and Sustaining Cooperation: the Case of Sukhomajri' describes the case of the Hill Resource Management Society (not a registered cooperative) started in 1978 for water, soil and forest management. It was a project of the Government of Haryana at Sukhomajri near Chandigarh. With all-out assistance by different departments of the state government by way of funds and technical guidance and the committed and devoted lead provided by the Project Director evoking active participation by the villagers it was such a resounding success that it was held out as a case of 'managing ecology on cooperative basis'. But by 1988 decline started with the government departments becoming indifferent once the original objective of checking soil erosion was achieved, funds drying up, the dynamic Project Director shifted, and the villagers ceasing to evince interest in the project with new alternative opportunities opening out to them.

So the two studies show that both, the formal cooperative at Yemmiganur and the informal cooperative group at Sukhomajri, had their rise and decline, an important contributing factor being the availability of dynamic dedicated leadership.

B.K. Narayanaswamy of the Agricultural University, Hebbal (Bangalore) in his paper, 'Small Farmers' Development: Cooperative as a Desirable Model', emphasises that this development can only be through increasing their productivity for which they have to adopt improved technology and be provided with efficient services in respect of supply of production inputs and marketing of increased output and also training to develop entrepreneurial qualities. This according to him could best be through cooperatives. However this is not based on any study of any cooperatives and identification of their strengths and weaknesses by the author.

P.N. Sankaran of the Kerala State Planning Board, in his paper, 'Institutional Reforms for Panchayati Raj: Towards Linking Cooperatives with Local Governments', recommends a number of measures to link the Panchayati Raj Institutions (PRI) with Primary Agricultural Credit Societies. These include establishment of Joint Planning and Coordination Committee, enrolment of PRIs as members (though without voting rights) in the PACS and representation of the PACS in the PRIs. The proposal for institutional membership to PRIs in the PACS is not only not in consonance with the requirement of restricting membership of cooperatives to the users but is fraught with the danger of bureaucratic and political influence compromising the autonomy of the cooperatives as has been seen in state-partnered cooperatives.

M.K. Sukumaran Nair of the Cochin University in his paper, 'The Crafts and the Market: Bringing Together the Logic of Two Systems?', deals with the problem of marketing of industrial products on the basis of his study of ten handicraft cooperatives in Kerala. He starts with the problem caused by the globalisation of the market to the mass producing industries and spells out the strategy of Flexible Specialisation (F.S.) among the salient features of which is the revival of the 'craft system of production' couched in modern technology. Against the background of these developments in respect of the mass producing industries, he examines the small handicraft cooperatives, majority of which were of women and finds that they had 'rigid standardised production' without innovations, and 'static marketing arrangements' either working as sub-contractors or supplying to higher tier cooperatives or government agencies like the Khadi Board which were rigid in their outlook. He recommends 'an appropriate and imaginative policy package' by the government enabling the cooperatives to acquire and develop 'building blocks of flexibility' for gaining competitive advantage.

No attempt is made here to review the 'Comparative Review of Three Recent Books on Cooperatives in India' by Supriya Roy Chowdhury, viz., *Finding the Middle Path: The*

Political Economy of Rural Cooperatives edited by Baviskar and Attwood, and *Making Farmers Cooperatives Work: Design, Governance and Management* and *Catalysing Cooperation: Design of Self Governing Organisations* both by Tushaar Shah.

In 'The Emergence and Survival of Cooperation: A Review of Some Theoretical Propositions' Katar Singh, Director, IRMA reviews seven theories, viz., Propensity to Cooperate, Carrot and Stick, Transaction Cost, Charismatic Leadership, Margin of Relationship between Load and Power and Game Theoretic Models. The essence of these theories is that cooperation and competition are two opposite yet basic tendencies rooted in the natural propensities to 'survive' and 'prosper'. When an individual can fulfil these independently, he tends to act individually and when he cannot, he tends to cooperate with others to fulfil the same. Cooperative as a firm emerges when it is expected to reduce the cost and/or increase the benefits to the members. If this expectation is actualised, the cooperative survives and grows. Good leadership is crucial in actualisation of the expectation.

II

The second volume on the *Strategies for the Models for Tomorrow*, opens with the paper by Tushaar Shah of IRMA on 'Organisation for the Bhagiratha Lift Canal Project for Irrigation and Domestic Supply: Outline of a Design and its Framework'. He claims that the design ensures operative effectiveness, governance effectiveness and patronage cohesiveness. He proposes a three tier structure with the Bhagiratha Water Users' Cooperative Federation as the apex at the headworks level, about 9 to 15 Water Users' Cooperative Unions at the zonal level as the middle tier, and 500 to 900 Primary Water Users' Cooperative Societies at the base, to be registered under the Andhra Pradesh Mutually Aided Cooperative Societies Act. Whatever plus points the design may have in respect of operation and governance its cooperative character is questionable. While the project is expected to supply water to 2 million people for drinking purposes and to 1 lakh farmers for irrigating 1.4 lakh hectares, 'Main Membership' of the primary societies is proposed to be restricted to only those requiring water for irrigation in what is termed as the 'Inner Command Area' providing for 'Associate Membership' for those requiring water for drinking, the 'Main' members having to acquire 'Associate' membership also should they require water for drinking also. Strangely enough, landless labourers, who by their very nomenclature do not have land to be irrigated, are also to be admitted as 'Main' members, a category supposed to be restricted to those requiring water for irrigation. Further, the Main members would be allowed to buy as many 'Water Shares' of Rs 1,000/- each as they might 'need and want' and be entitled to get 1,000 cubic metres of irrigation water per water share per year in perpetuity (there being no mention about the size of the holdings of land they would require to irrigate). As and when the project is able to increase water supply the excess water could be sold at 'profit' to the farmers downstream in the 'Outer Command Area' who will not be members. Voting rights of the Main members would be in proportion to their stake - one vote per one irrigation water share, the Associate members not having any voting right and yet having one seat reserved in the Board for one woman associate member. This design does not constitute a mutuality of all the beneficiaries of the service provided by way of supply of water, whether for irrigation or for drinking. It is virtually a closed house of the comparatively small group of privileged farmers in the inner command area denying to the larger number of users of water, whether for drinking or even for irrigation in the outer command, the rights of full membership and affording opportunities to the 'main' members to profit at the cost of the farmers in the outer command. With these features those organisations will not be eligible for registration under the Andhra Act as they are violative of Section 3(b) of the Act. They could be more appropriately registered as companies in which features and principles of cooperation are not relevant.

The other paper on irrigation by R.M. Mallik of Nabakrushna Choudhury Centre for Development Studies, Bhubaneswar, Orissa, presents results of 'A Micro-Analytical Investigation into

Community Versus Private Dugwells'. While it brings out that the small farmers secure higher benefits from the community wells than from the private which were more advantageous to the well-to-do farmers, it does not give any information about the structure of membership, capital and management of the community project nor about the differences in operations, if any, between the community wells and the private wells.

There are four papers on cooperatives for the tribals. Of these, the paper by K.G. Karmarkar, General Manager, National Bank for Rural Development (NABARD), Bhubaneswar, 'LAMPS in Orissa: Brighter Days Ahead for Tribals?', gives the historical background of the Large Scale Adivasi Multi-Purpose Societies (LAMPS) in Orissa and points out that they have failed to cover a major part of the tribal population, and even to the members enrolled they had not provided services satisfactorily. They were found to be non-viable, over-staffed, burdened with deputationists and having to operate on small margins. They had no effective coordination with the Forest Department, the Tribal Development Cooperative Corporation and the Agro-Industries Corporation. It is stated that the State Cooperative Bank had prepared a scheme for making the LAMPS viable and profitable but no details of such a scheme are furnished if that was considered to be a model.

Dinesh K. Marothia, Member, Commission for Agricultural Costs and Prices, Government of India, in his paper, 'Cooperative Management of Non-Timber Forest Products: Issues of Property Rights and Institutional Structures', indicates how property rights of forest areas originally vesting in the forest tribes were later taken over by the state which looked upon the forests as revenue yielding assets. The state having the forest produce harvested through private contractors reduced the forest dwellers to the status of mere wage earning captive labour. With the organisation of cooperatives of these tribals it was expected that their condition and status would improve. But the study of three primaries in the Raipur district (Madhya Pradesh) showed that besides improving the wage levels there was no other change. Member participation in the management was only nominal and negligible. But he too has not put forth any concrete model of institutional arrangement that could ensure the desired improvement.

In the paper 'Whose Cooperatives and Whose Produce? The Case of LAMPS in Karnataka' Sharachchandra Lélé and R. Jagannath Rao of the Institute of Social and Economic Change, Bangalore, make a critical analysis trying to identify factors responsible for failures of LAMPS based on a study of 19 LAMPS from four districts in the state. In the follow-up paper, 'Re-lighting LAMPS : A Draft Action Plan for Revitalising the Tribal Cooperatives in Karnataka', they (in consultation with two associates) propose change in the structure - village level or base cooperative sanghas restricted to collection of minor forest produce by the members, relieving them of the present additional activities of dispensing credit and supplying provisions under Public Distribution System; and their Taluk level federations for processing and marketing of the produce collected by the primaries. The plan of action is to include: building up internal financial resources, returning government share capital, developing member awareness, training, and removal of nominated directors and government deputed executives, to make them effectively member-owned and member-managed institutions. But this has to be backed up by change in the government policy to provide clear, secure and exclusive rights of access to the members to the forest resources unhindered by complex systems of passes, permits, checkposts, etc., which breed corruption and favour private traders.

The next batch of seven papers is categorised as 'Innovations in Rural Finance'. All the papers hold out Self Help Groups (SHGs) as alternatives to the rural credit cooperatives which have failed to perform satisfactorily.

I. Sahoo and J. Maharana of NABARD, Bhubaneswar in their paper, 'Emerging Trends in Institutional Development in Cooperative Credit Structure', after recounting the measures taken by the Reserve Bank of India (RBI) and NABARD from time to time for strengthening and improving the working of rural credit cooperatives, refer to the launching of Vikas Volunteer Vahinis (VVVs) as an exercise in institution building aimed at bringing about attitudinal change among the borrowers and to the commendable result in better flow of credit and higher recoveries in the areas where the VVVs were functioning.

Ajay Kumar Panda and Ashok Kumar Mishra also from NABARD, Bhubaneswar, describe in their paper, 'Self-Help Groups: Informal Cooperatives in Orissa', the programme launched by NABARD to link the Self-Help Groups (SHGs) with Commercial Banks, Regional Rural Banks and Cooperative Banks, either directly or through SHG Promoting Institutions, mostly Non-Governmental Organisations (NGOs). On the basis of their field study they give their finding that the flow of credit and the percentage of recovery was much better wherever SHGs were functioning. But they have not given any information about their performance on the resource mobilisation front, though the SHGs are supposed to be not merely borrowers' clubs but also thrift and credit groups.

Another paper on SHGs in Orissa is by Suryamani Roul of Badagada Brit Colony, Bhubaneswar who holds out SHGs as alternatives to cooperatives on the basis of his study of ten SHGs promoted by seven NGOs from seven districts of Orissa. Data collected has not been fully presented but only 'Major Findings' are given in broad terms. Of the ten groups studied, eight had only women members, the number in each varying between 15 and 22, credit was linked to savings and their performance in both was satisfactory. Most of the members were illiterate and, though oriented in the concept of SHG, could not manage operations and finances, understand book-keeping and accounts, for all of which they depended entirely on the NGOs promoting them. In only one SHG, meetings were held regularly and on time. With such findings, one must be bold to hold out these as alternatives to cooperatives.

K. Ramesha of National Institute of Bank Management (NIBM), Pune in his paper, 'Self Help Groups : Emerging Cooperatives', presents the results of his study of six SHGs and two PACS in Karnataka and Tamil Nadu. On the basis of the opinion survey of 40 members, five from each, he concludes that the SHGs exhibited better conformity to the Cooperative Principles than the PACS. It is relevant to note that of the six SHGs in the sample five had only women as members, membership of the groups varying from 10 to 24, and the majority of the sample 30 members of these groups were illiterate. It is not contended that illiterate women cannot comprehend and form and express opinions. But the extent of their experience in the groups cannot be appreciated without knowing the age of the group and the duration of the membership of the respondents in the group. The author admits that the size of the sample was relatively small and the possibility of the conclusions having been affected by his 'observations and judgements'. Yet he hails the SHGs as 'new-wave-cooperatives'.

D.N. Dwaraki, N. Narayanswamy and R. Ramesh of Gandhigram Rural Institute in Tamil Nadu have contributed a paper, 'Towards Creating a Participatory Self-Help Credit Cooperative', based on the study of three NGOs in Tamil Nadu which have been promoting SHGs. The features of the SHGs noted are manageable size, promotion of thrift (the groups having compulsory savings), demand based lendings (what they need and when they need), lending without collateral on mutual trust (linking lendings to savings), regularity and discipline in repayment, and regularity and discipline in participatory management (compulsory attendance and linking of credit to attendance also). Here too the self-perpetuating urge is seen in the NGOs which had spent three to thirteen years in nourishing the SHGs and yet were not prepared to consider that any of them had come of age and wanted them to continue under their tutelage - an approach not far from that of the state which promoted and helped the cooperative movement in this country. They have suggested a model of structure of what they term as Self-Help Enterprises (SHEs) - the SHGs - forming federation or consortium. They too, enthused by the success of the SHGs, recommend that the policy-makers should leave cooperatives to themselves and forge ahead with the 'alternative institutions' (SHGs) and prophesy that the SHEs may in one generation make the cooperatives obsolete.

'Self Help Organisations: A Case Study of Thrift and Credit Cooperatives in Adilabad District of Andhra Pradesh' by G. Krishna Murthy of the Kakatiya University, Warangal, Andhra Pradesh is based on the study of two thrift and credit societies and one 'Finance Corporation' of employees working in an organisation. This shows that not all SHGs are small manageable groups with mutual trust and mutual knowledge, the two societies studied having 145 and 165 members. They did not exhibit the virtues of good management — the General Body Meetings of the two SHGs were not held for over a year, financial position was not made known to the members, audit was in arrears for over two years. They were also not immune to external influences and pressures - 11 out of 23 SHGs promoted by Karimnagar Regional Association of Thrift Societies were stated to have been separated to form into Bellampalli Regional Association on the insistence of a Trade Union leader of the area.

Vijay Mahajan, Managing Director, BASIX Group, Hyderabad describes what is indeed an innovation in rural finance - 'BASIX: A New Generation Rural Financial Institution'. The Bharatiya Samruddhi Investment Consulting Services Pvt., Ltd. (BASICS) as the holding company has three subsidiaries - Bharatiya Samruddhi Finance Ltd. (BSFL), Sarvodaya Micro Finance Ltd. (SMFL) and Indian Grameen Services (IGS), the first two being 'for-profit' non-banking companies and the third a non-profit company, the first two to provide finance to the rural small and agro-enterprises and rural subsistence workers and micro-enterprises, the third to provide technical assistance and support services to rural producers and producer groups. Equity capital in BASICS is to be held by 'promoters' but who the promoters are has not been mentioned; preference shares and 'optionally convertible bonds' by various organisations - Ford Foundation, Swiss Development Corporation (SDC), Tata Trusts and other Trusts, NABARD, Small Industries Development Bank of India (SIDBI). The distribution channels for finance are to be SHGs for subsistence workers, Informal Producers' Groups (IPGs) for micro-enterprises and, until such IPGs are formed or where they cannot be formed, the traders (input suppliers and output buyers) - the very agencies which have exploited the rural workers and small producers whether in farming or non-farming sectors for ages through fraudulent practices - are to be utilised. From the structure described, it is clear that the ultimate beneficiaries have no place or voice in the structure. It is difficult to understand how such an organisational structure can be fitted into the exercise of rediscovering cooperation.

A single paper on 'New Vistas of Cooperation in Sericulture and Silk Weaving Industry in West Bengal' by Amalesh Chandra Banerjee and Debashish Majumdar of Rabindra Bharati University, Calcutta is based on a study of 33 silk reeling and 144 silk weaving cooperatives in West Bengal. The authors state that the performance of the cooperatives in this industry is both inadequate and unsatisfactory, there being no cooperatives in mulberry cultivation and silk worm rearing and large number of reeling and weaving cooperatives being inactive. The industry in all its stages had traditional antiquated processes constituting a serious handicap in competitive market. As an 'organisational innovation' they recommend rearers' cooperatives which should build common rearing houses with modern facilities, cocoon marketing cooperatives, reelers' cooperatives which should install electrically operated twisting and doubling machines, weaving cooperatives which should work on large scale as factories rather than on the 'putting out' system as at present. These cooperatives should be developed on a 'cluster basis' with vertical integration between different stages in the industry and the rearers' cooperatives clustered horizontally with poultry, fishery, and piggery cooperatives. While the recommendation for vertical integration could be seen to be helpful, that for horizontal integration cannot be appreciated as they would have no common basis and no inter-relation. Further, while stating in one place that the increasing dependence of the cooperatives on external support, particularly from the government, has to be reduced, they recommend government 'intervention' to support the cooperative which will not be able to muster resources for the adoption of modern technology recommended by them.

The last four papers in this volume are on fishery cooperatives.

Samar K. Datta of Indian Institute of Management (IIM), Ahmadabad in his paper, 'Strategies for the Fishery Cooperatives of Tomorrow', gives an overview of fisheries in India, both marine and inland, indicating potential for development and the status of the fishery cooperatives in the country. Covering only 11 per cent of the fishermen, these cooperatives with low capital and low turnover had failed to provide the much needed economic services to the fishermen members, most of them being engaged more in the distribution of government welfare benefits. The higher tier cooperatives were without any functional role for themselves. So he recommends a three-pronged strategy: (1) Organisation of cooperatives of educated unemployed youth who can contribute significantly in terms of both funds and skills. (2) Organisation of model fishery cooperatives of average fishermen sponsored by NGOs on a pilot basis, initially as self-help thrift groups gradually injecting later better technology, better marketing and management practices. (3) Development of 'suitable alliances with private traders for marketing until they build up their own capabilities. However, it is not clear how the 'educated unemployed youth' will be able to raise resources needed in the capital intensive sector they are expected to enter. Similarly, what types of new alliances are visualised is not clear because sale by auction to the fish traders suggested here has been the method already adopted by such cooperatives as do undertake marketing. Rings formed by traders to avoid bidding high are quite common.

In another paper of his, Datta presents, as a model for fresh water fishery cooperatives, the case of 'Mudiali Society' formed in the wetlands under the jurisdiction of the Calcutta Port Trust by the migrant fishermen from the Damodar river in the thirties. The Society is reported to have been formed in 1956 and registered in 1961. It is an interesting case of a cooperative having multiple activities - breeding, processing and marketing of fish and fish products, supply of fishery inputs including credit and, in addition, supply of consumer goods. Besides these services to the members, the Society has done a commendable job of improving the environment of the area surrounding the water bodies through afforestation which has enriched the area with a large variety of flora and fauna. The work ethics in the Society is stated to have been well developed with the members being required to do all jobs by rotation thus ensuring equality and avoiding hierarchy and bossism. But the membership is stated to be having three tiers - permanent members with voting rights, associate members and casual workers without voting rights, the second and the third category outnumbering the first. Who these associate members are who are extended 'the same facilities as the permanent members' is not stated and why they have been denied the voting rights while extending services is also not stated. This makes the organisation a closed house of some privileged members denying the right to participate in management to others who by participating in the services contribute to the working just like the permanent members. Could such an organisation, however successful its working may be, be held out as a model cooperative?

Ramachandra Bhatta of the College of Fisheries, Mangalore in his paper, 'Role of Cooperatives in Fisheries Management and Development in Coastal Karnataka', gives two case studies, one of a fisheries cooperative in Mangalore initially registered as a primary society in 1957 and later converted into a district level federation but with both societies and individuals as members, and the second of an unregistered fish marketing organisation set up by the Mahajan Sabha of the *Mogaveera* community covering fishermen of 16 fishing villages. The former had share capital contributed by the government, government nominees on the Board and a government officer as a Managing Director while the latter had the share capital contributed entirely by the fishermen members and a Board comprising their representatives and the nominees of their village sabhas. While the federation had a turnover of Rs 156.26 lakh, the community-based marketing organisation had a turnover of Rs 1,075 lakh.

The success of the community-based organisation was attributed to homogeneity of membership - belonging to the small sized *Mogaveera* community, - covering only 16 villages, flexibility in decision-making and operations due to absence of bureaucratic constraints as it was not registered and did not have government involvement in capital. But there is a significant remark by the author that without formal recognition of the body and its rules, it would be exposed to external shocks with fishermen possessing little recourse to protection.

Sunil and Smita of the Kisan Adivasi Sanghatan of Kesala, Hoshangabad district, M.P. in their paper, 'Alternative Forms of Management in Reservoir Fisheries: Comparative Case Studies from Madhya Pradesh', compare three types of management that had been operating in the three major reservoirs - Gandhisagar, Bargi and Tawa at different times. Private contractors to whom fishing rights were auctioned were exploitative of the fishermen and also over fishing in the areas. The Fisheries Department of the State Government and the Madhya Pradesh State Fisheries Development Corporation had exhibited inefficiency, indifference, mismanagement and corruption. Cooperatives of fishermen had performed better. But they were stifled by bureaucratic control and interference. Also the short term leasing rights proved to be a handicap in long term planning and raising of resources. Long term leases and some concessions in the royalty payable to the government would be helpful. But there was a danger of spurious cooperatives being formed by vested interests to misuse the concessions intended for the genuine poor fishermen.

III

In the third volume, *Cooperatives in the Emerging Context,* it could be expected that all the papers would be with reference to the cooperatives which had plans to meet the 'Emerging Context' of the policy of economic liberalisation adopted in the country. But it is seen that not all the papers included in this volume have a focus on this. Only nine papers have specific reference to the new economic policy. In three papers the authors have put forth what they have considered as 'model' or having 'replicable features' and these could have been more appropriately included in Vol. II. Other papers which had not dealt with the 'concept' and 'bases' of cooperation nor put forth 'models for tomorrow' nor had any reference to the 'emerging context' have probably been included in this volume because no other slot was available.

In the first paper in this volume, 'Market Intervention, Value Addition and Consolidation: the Interface Between Small Rubber Growers and the Cooperative Sector in Kerala', Tharian George K. and Binni Chandy of the Rubber Research Institute of India, Kottayam, Kerala presents features of production and marketing of rubber in Kerala. Prices of rubber had been under statutory control - prescribing minimum since 1942 and maximum since 1947. The relative share of small holders in total production was steadily increasing and, as they needed marketing support, their marketing cooperatives were formed in the 1960s and their State Marketing Federation was formed in 1971. The Federation entered the market on behalf of the State Trading Corporation (STC) to stabilise the prices of rubber which had been fluctuating since the removal of the statutory maximum price in 1968, long before the new economic policy of deregulation was adopted. Besides procuring rubber on behalf of the STC, it procures on its own, sells it from its sales depots in the consuming centres and processing factories, which has helped the small-holder members with value addition and better prices. This is a clear indication of the strategies followed by the rubber cooperatives in the context of deregulation of the price.

A similar case is documented by M. Indira, a freelance researcher of Mysore, in the paper 'Emerging Cooperatives in Indian Coffee Trade'. Discontinuance in 1989 of the Quota System that had been in operation under the International Coffee Agreement and the relaxation since 1992 of the pooling system that had been operated by the Coffee Board since 1930 posed a challenge to the Coffee Growers' Cooperatives that had been functioning as agents of the Coffee Board under pooling, Big growers had resources enough to export their coffee directly or through exporters and the small growers preferred to sell their coffee to the local agents due to their proximity and low transaction cost. But the medium growers needed and got the services from the cooperatives. The cooperatives received coffee from the members on consignment basis, stored it and sold on instructions from the concerned members or purchased outright at current rates, processed and marketed it, either through open auctions or direct sales to big consumers or even arranging exports through STC. Through daily announcement of its price over the radio, the Indian Coffee Marketing Cooperative not only helped the coffee growers with information needed for their decision to sell but also acted as a price setter in the market. Thus, these cooperatives were building up a position for themselves in the liberalised market situation.

K.S. Anandaram of the Vaikunth Mehta National Institute of Cooperative Management (VMNICM), Pune in his case study, 'Shree Ganesh Cooperative Spinning Mills Ltd.: A Performing Cooperative', gives Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis and lists factors contributing to the good performance, so necessary for survival in the face of competition induced by the opening up of the Indian economy. The contributing factors and the good performance are as could be in any industrial enterprise in general and in any spinning mill in particular. But the performance as a cooperative, as judged by the services provided to the members and the participation of the members in the capital and management, is just not looked into. 'Cooperative' figures only in the name but no aspect of cooperative as an organisation which owned and ran the mill is touched upon.

In 'How Do Stakeholders View Success: The Case of Shetkari Sahakari Sangh Limited, Kolhapur' Rajendra Biradar and Prashant Patil of Chatrapati Shahu Central Institute of Business Education and Research, Kolhapur, present the results of the opinion survey conducted by them among four groups of 'stakeholders' - customers, employees, members and top management (Chairman and Vice-Chairman) - regarding the performance of the Sangh. But it appears that the emphasis of the survey was on the consumer section of the Sangh, while the Sangh was organised primarily for providing marketing services and inputs for farming to the farmer members. What the potential for the primary objective of marketing was, how far it was developed, how far the diversification in other activities, particularly the consumer section, affected the performance in attaining the primary objective, these questions have not been looked into. From the analysis of the responses of the customers and members it appears that their responses with reference to services provided for farming were not sought.

In another paper, 'Readiness for Re-engineering: A Study of Three Cooperatives in Kolhapur', Biradar gives the meaning of 'Re-engineering' as 'fundamental rethinking and radical redesign of the business processes to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, service and speed' (p. 107). The author has elicited responses from the chairman, the managers and the executives from each of the three large cooperatives - the Shetkari Sahakari Sangh, Kolhapur District Cooperative Milk Producers' Union and Shri Warna Sahakari Dudh Utpadak Prakriya Sangh - to a questionnaire about their recognition of the need for re-engineering, its acceptance, and commitment to implement the same. It is not clear whether any specific 'radical changes in the design of the business processes' were suggested, or whether their views about the changes deemed necessary and possible by them were elicited. Further, it is not clear whether any such changes would affect the cooperative character of the institutions. The statement 'These organisations, in spite of the legal framework of cooperatives, understand the nature of re-engineering'(p. 110) leaves room for doubt in this respect.

In the paper, 'Dairy Cooperatives: Organisations of the Poor in Bihar', R.K.P. Singh of the Rajendra Agricultural University, Pusa opens with a reference to the 'new economic environment of the country' but does not deal with any problems thrown up by the new environment and how the cooperatives are tackling the same. His focus is on the composition of membership - big, small and marginal farmers and landless labourers, their participation in the management and utilisation of the services.

N. Rajaram of the M.S. University, Vadodara has his paper on 'The Impact of Liberalisation on Village Milk Cooperatives: A Sociological Study of Kheda District' and Dilip Shah of the South Gujarat University, Surat has his on 'Private Sector Dairies in Vadodara - Impact and Future Strategy for the Vadodara District Cooperative Union'.

As Rajaram points out, private milk vendors and converters of milk into *Khoa* or *Mava* had all along coexisted with the milk cooperatives. But since delicensing of the milk processing industry in 1991 private dairy units have been set up. This has injected competition in the procurement of milk and marketing of liquid milk and of milk products. The private operators have succeeded in getting some milk diverted to themselves by paying higher price per kilo fat. But success of the cooperatives in retaining supplies from a majority of their members is attributed to the other services provided by the cooperatives besides the price for milk delivered, such as veterinary services, supply of cattle feed, accurate and speedy fat testing through electronic gadgets and prompt payment. But it was necessary for the cooperatives to take steps for increasing milk production by their members, higher procurement through better services, and for holding and extending their market in the race of competition by new private dairies.

An extremely interesting case of restructuring of the Dairy Vale Cooperative in Australia is presented by Subroto Roy of the Adelaide Graduate Business School. For survival in the severe competition from large giant companies with greater financial resources following deregulation of the dairy industry by the state, the management of Dairy Vale prepared a scheme to set up four interrelated organisations. A cooperative, a holding company, an investment trust and an operating company, to retain the advantages of a cooperative and to attract capital from the capital market. It would appear to be profit-oriented investors' organisation retaining the benefits of a cooperative through a juggling of institutional links - procurement and collective bargaining by the cooperative, processing and marketing by a subsidiary of the holding company owned in turn by an investment trust, which would raise money from the equity market. Had the cooperative law permitted the cooperative to raise equity from pure investors in the capital market instead of restricting them to issue of shares to the user members, they would not have thought of this form of re-engineering of the structure. Though the structure so designed might meet the requirements of the law, how far it is in consonance with the basic values of cooperation is debatable.

In 'Emerging Agri-Business Complexes: A Study of Two Cooperatives', V. Kulandaiswamy of the Sri Ramakrishna Mission Vidyalaya College of Arts and Science, Coimbatore presents case studies of Tiruchengode Agricultural Producers' Cooperative Marketing Society (TCMS) established in 1930 and the Nilgiris Cooperative Marketing Society (NCMS) established in 1935. Both the cooperatives had withstood the vicissitudes of the Economic Depression of the nineteen-thirties, the Second World War, the post-War economic and political developments, including the regimes of the Plans, and continued to operate in the context of the new economic policy. According to the author, study of the strategies adopted by the two cooperatives could be helpful in meeting the challenges in the new context. Features that contributed to their success are stated to be strong capital base of both, the TCMS laying emphasis on deposit mobilisation, both providing a package of services - supply of agricultural inputs and marketing of agricultural produce on commission basis or through auctions or through their retail outlets, the latter guaranteeing minimum price during gluts in the market, and the former extending the benefit of value addition through its own processing units - rice hullers, decorticators, rotaries and expellers, and ginning factory. Both the cooperatives had operational links with their federations. All this despite the fact that they, like all cooperatives in Tamil Nadu, have been under bureaucratic control and without democratic management for over two decades.

G.T. Govindappa of Kuvempu University, Davangere, Karnataka in his paper on a primary woollen handloom cooperative society in Karnataka holds out the cooperative to be so successful as to provide an object lesson to others, in the context of increasing competition from organised industry and decreasing support from the state. However, in the figures furnished, it is seen that the Society had a steep fall in the share capital contributed by the members even when the number of members had increased in 1994-95. Similarly, even though gross profit had increased the net profit had declined. There is no explanation for this. The Society had undoubtedly built up its business on its own without adequate support from the apex cooperative, and it speaks volumes about the 'dynamism' of the secretary. But the fact that the accounts were not properly maintained as pointed out by the auditors in every audit report does not speak well about the transparency so necessary in any organisation, particularly one held out as a model. Similarly, the cooperative having accepted, under a government scheme, improved looms which were not used by the members and were gathering dust in the godowns and burdening the cooperative with dead investment, also does not reflect well on the management. His suggestion to organise federations at the district level because the apex federation had failed to be of any service to the primary cooperatives has not been based on a study of the apex, identifying causes of its unsatisfactory service. It raises the question as to how the primaries which failed to secure desired services from the apex would be successful in securing the same from the district federation, if and when organised.

Sangeeta Shroff of the Gokhale Institute of Politics and Economics, Pune, presents a study of the Gujarat State Cooperative Cotton Federation operating in the open market comparing the same with the Maharashtra State Cooperative Cotton Growers' Federation which functioned under the state government's monopoly cotton procurement scheme. While it presents a picture of high price paid by the Gujarat Federation as compared to the prices paid by the trade and also by the Maharashtra Federation, and also of the supply of fertilisers allotted by the Gujarat State Government, it does not provide any information about the operational links between the Federation, its affiliated Unions and their links, in turn, with the primaries and also whether the entire cotton sold had been procured from the members or from the non-members as well, and in the latter case, the extent of procurement from the members and purchases from the non-members.

D.P. Apte of Yamato Kawakami Foundation, Pune and S. Shankara Setty, Managing Director, Shetkari Sahakari Soot Girni Maryadit (SHEKOSPIN), Sangole (Maharashtra), have a paper entitled 'Generating Rural Employment: Experiences of Successful Cooperative Spinning Mills in Maharashtra', based on case studies of two powerloom weaver-owned cooperative spinning mills in and near Ichalkaranji, a powerloom weaving centre in Kolhapur district of Maharashtra, and a cotton grower-owned cooperative spinning mill in Solapur district of Maharashtra.

While the title gives the impression that the focus of the study is on rural employment, no information is given on the extent of employment provided, whether the employees were locals from rural areas or urban centres, or migrants from other areas, categories of employees, their wage scales and wage income, and other non-monetary benefits that might have been conferred on them.

Besides, it is relevant to note that generation of employment was not the objective of these cooperative spinning mills which would certainly be the objective of a worker-owned cooperative spinning mill. Here it is only an incidental result which would have been, even if the mill had been investor-owned. The objective of the two weaver-owned spinning mills was to provide to the member weavers yarn needed by them and the objective of the grower-owned mill could not be any other than processing the cotton of the grower members to give them the benefit of value addition to their cotton. However, in the criteria listed by the authors for determining the success of the cooperative spinning mills, this basic criterion of provision of satisfactory services to the members has been completely overlooked. Members' participation is vital to the success of any cooperative and yet the authors have placed 'members' involvement' as an 'indirect contribution to the success'. The statement 'In SHEKOSPIN its members only buy shares, and the technocrats and managers run the mill' (p. 75) shows total absence of members' participation in that cooperative. Yet it is held out by the authors to be a successful cooperative spinning mill. It might be a successful spinning mill as an enterprise but certainly not a successful cooperative spinning mill. Charitable and other developmental activities undertaken by the cooperatives, however laudable, cannot compensate for the want of the core of a successful cooperative - member participation. They list 'political patronage' as one of the factors contributing to their success. But the same political links prove to be a serious handicap when opposition parties come to power as has been borne out by the experience in many states including Maharashtra.

Prem Prakash Jaiswal, President, Palia-Kheri Dugdha Utpadak Vikas Samiti in Uttar Pradesh, in his paper narrates his personal experiences in organising a new milk producers' cooperative and the problems faced by the cooperative - competition from the *doodhias*, malpractices by the staff, negative attitude of government staff. But with ability to lift larger quantities of milk than what the *doodhias* could, proper testing of milk and prompt payment of milk price, and better training and payment to the staff, the difficulties could be overcome.

P. Indira Devi of the College of Horticulture, Thrissur (Kerala) records in the paper, 'Marketing of Fruits and Vegetables in Kerala: A Participatory Management Approach', that the market characterised by lengthy marketing channels, high marketing costs, low marketing efficiency, and pre-harvest contracts by traders appropriating a major share of the consumer rupee, was expected to be remedied by marketing cooperatives. But, barring a few exceptions, their performance was not satisfactory. Hence, she suggests an alternative model. It is organisation of Self-Help Groups of 5 to 10 members, of whom at least two should be 'practising vegetable farmers' and the others could be motivated educated youth, keen on self-employment. These groups should prepare and implement vegetable production plans, collectively handle inputs and other farm operations and conduct sales. They should function as 'private business units in all their activities relating to management', and get linked to horticultural research, promotional and developmental organisations and obtain credit from NABARD. This is based not on what is tried and found suitable but on the hope that it might succeed. So this is one more paper pinning hopes on SHGs.

In the same field of marketing of agricultural produce, Umesh Naik of the M.S. University, Vadodara, and Sandhya Nair of Bharatiya Agro Industries Foundation (BAIF), Pune, in their paper, 'The Structure and Design of Horticultural Produce Cooperatives: Two Contrasting Cases', compare organisation and growth of two cooperatives - the Amalsad Vibhag Vividh Karyakari Sahakari Mandali Limited, established in 1941 by progressive farmers and the Vasundhara Vrix Vanwadi Jal Sinchan Vikas Sahakari Mandali Limited of the tribals promoted by BAIF. Development Research Foundation Pune under its Tribal Development Programme in 1985. Both the cooperatives were stated to have been successful though they differed in the natural, human and financial resources. Amalsad was in a fertile region having progressive farmers with ability to contribute capital, Vasundhara having orchards developed on wasteland by the poor tribals depending more on external assistance both in capital and management. The study shows that where the situation is favourable, cooperative can be developed by local initiative, internal resources in capital, leadership and autonomous management. Where it is unfavourable, external initiative, financial assistance and leadership provided by an NGO like BAIF with the right attitude can be helpful. It generated awareness, secured participation, developed potential leaders, and instilled confidence for autonomous development and management.

On the other hand, the paper by Jagdish Prasad of A.N. Sinha Institute of Social Studies, Patna, 'Cooperative Institutions in Bihar for Marketing Vegetables', presents a picture of cooperatives which failed to provide adequate marketing services to their members. The two primary marketing cooperatives and the district federation of the marketing cooperatives in Ranchi district studied were not getting members' participation, and the sales of vegetables were not of those procured from the members but by purchase from the local markets for sale in the markets outside the state. The members continued to have tie-ups with commission agents and the cooperatives did not have any impact on the members or the market.

M.S. Sriram, K. Prathap Reddy and Rajesh Agrawal of IRMA have an interesting paper on 'Capital Formation Strategies of District Level Dairy Cooperative Unions in Gujarat'. Apart from the strategies for building up capital - share capital and permanent deposits that can be withdrawn by a member only while quitting the cooperative, reserves which are indivisible and non-withdrawable, long term deposits and redeemable debentures, and short term (less than one year) deposits and current dues -, the correlation between these different forms of capital and member control, member usage and member satisfaction is also studied. It is clear that member usage and member satisfaction are inter-related as there cannot be any question of satisfaction unless there is usage, but if services are not satisfactory, usage is bound to decline. As for usage and control, very few cooperatives make usage as a condition for control, though it ought to be made so conditional in all cooperatives, in order to eliminate control by the merely investing sleeping members who do not participate in the services provided by the cooperatives. As for the relation between capital contribution and usage, satisfaction and control, some cooperatives do require their members to contribute to the share capital in proportion to their need for the services or actual use of the services provided to them, e.g., in credit cooperatives, shareholding has to be in proportion to the borrowings and in the sugar cooperatives shareholding has to be in proportion to the acreage under cane. The authors contend that the nature of capital contributed gives leverage to the members to control as they could desist from contributing more and even withdraw the withdrawable capital if the services are not satisfactory. They have not, however, cited any concrete instances of such action in any cooperative, though possibilities of such action exist.

Another paper on dairy cooperatives is 'Warna Milk Cooperative and Women Producers' by V.M. Rao of VMNICM, Pune. Here the author makes as good documentation of the Warna Milk Cooperative. But so far as the women producers are concerned, with special reference to whom the study was conducted, information is highly inadequate. Information expected could be number of women members in the cooperative, their proportion to total membership, their capital contribution by way of share capital and deposits, their attendance at the General Body meetings and participation in the proceedings, their representation on the Managing Committee, whether through election in competition with the male members or in reserved seats, their attendance and participation in the decision making in the Committee, their utilisation of the services provided by the cooperative by way of receiving inputs or delivery of milk and income earned from dairying and comparison of these members with non-member producers of milk.

A.C.K. Nambiar of the University of Calicut, has an interesting paper on 'New Frontiers in Cooperation: Cooperative Hospitals in Kerala'. Starting with a cooperative hospital at Thrissur in 1969, their number is reported to have gone up to 108 in the state, almost every district and even some taluks having such hospitals. The first hospital is stated to have been started on the initiative of the students undergoing training in a diploma course in cooperation 'conceived ... as a source of employment for some of them' (p. 119). What sort of employment these students had expected to get in a hospital is not clear. It is stated that 'Employees are not shareholders of this type of society' (p. 121). How could the students desiring to have employment in the hospital have such a rule framed debarring the employees from shareholding? Despite this general feature, doctors are reported to have been enrolled as 'professional members'. If doctors could be so enrolled why not nurses and other paramedical staff? Similarly they are reported to be having a category of 'Life Members' which, while common in many social and cultural organisations, does not fit into a cooperative. Services of these cooperative hospitals are reported to be made available to 'all' whether members or non-members. However, the nature and extent of services of the hospitals to the members, the constitution of the General Bodies and the managing committees and the participation of the members in the meetings of these bodies are points of interest in such studies but have not been studied by the author. Initiative of politicians and support of political party are reported to have contributed to the establishment and growth of some of these cooperative hospitals. But intra-party differences and struggle of the political parties to gain control over the management of the hospitals are reported to have created problems.

Another paper of interest is by P.K. Singh of Sardar Patel University on rural energy cooperatives in the Mehsana District of Gujarat. Two institutions studied are The Silver Jubilee Biogas Production and Distribution Cooperative Society at Methan registered in 1987 and the Biogas and Water Distribution Cooperative Society of Vadpura which was not registered as a cooperative but functioned as a subsidiary of the Vadpura Milk Producers' Cooperative Society. While the Society at Methan was reported to have been successful the Society at Vadpura could not be. Both were sponsored and assisted by external agencies and were having community bio-gas plants for generation of energy. It is interesting to note that the Society at Methan was a registered cooperative and had a large membership of over 300, while the one at Vadpura was not a registered cooperative and had comparatively small membership of 70. The cooperative at Methan had its own constitution with a General Body and a Managing Committee but one at Vadpura did not have its independent General Body and Managing Committee, the parent milk cooperative had. Since not all the members of the milk cooperative had joined the bio-gas scheme the needs and the problems of the bio-gas scheme did not receive the attention of the parent body in an adequate measure. Factors contributing to the success of the cooperative at Methan were stated to be, despite large membership, homogeneity and cohesiveness, higher education and awareness among the members, good local entrepreneurial leadership, and good service evoking reciprocal members' support.

In the paper, 'Watershed: A Unit of Cooperation', Rajesh Kapoor, Programme Executive (Village Institution and Credit), Aga Khan Rural Support Programme (India), Ahmedabad records experience of the NGO in organising local communities in Surendranagar and Bharuch districts of Gujarat, under the Watershed Development Scheme formulated by the Ministry of Rural Development, Government of India for integrated natural resources development. What are organised, are not cooperatives, but local groups, not for any single activity like credit or milk, sugar, irrigation, etc., but for the development of the natural resources of the area. Lack of social homogeneity, conflict of economic interests, especially in respect of private property rights and common property, and bias against women and the landless were reported to have posed problems in organising and securing active participation in the activities of the groups. The process of organising groups is described in detail but the activities undertaken by the groups and the extent of members' participation have not been touched upon.

Studies in inter-cooperative relationship are presented in two papers, 'Intra and Inter-Relationships in the Cooperative Marketing Structure' by P. Sivaprakasam of Gandhigram Rural Institute in Tamil Nadu and 'A Study of Cooperatives and Inter-firm Cooperation in Cannanore District, Kerala' by P.A. Krusch of Shion Trade Links, Cochin.

Sivaprakasam's findings are that though there is the formal structure of primary marketing cooperatives at the taluk or market centre level and the marketing federation, Tamil Nadu Cooperative Marketing Federation (TANFED) at the state level and the National level federation (NAFED), there is overlapping of membership at all the levels. The primary marketing cooperatives have, besides the individual farmer members, the primary agricultural credit cooperatives also as members, which are also simultaneously affiliated to the state federation, besides the primary marketing cooperatives affiliated to it. Similarly, some primary marketing cooperatives are affiliated to the national federation also besides being affiliated to the state federation. There was overlapping of their activities also. The state federation was bypassing the primary marketing cooperatives supplying agricultural requisites directly to the primary agricultural credit cooperatives and even to the farmers through its Agro Super Markets. Similarly, in marketing agricultural produce, these cooperatives did not operate through the immediate next tier but bypassed the tier. So, in effect, the federal cooperative instead of facilitating the operations of the affiliated cooperatives competed with them which could not contribute to the strengthening of the federal structure. A good feature of inter-cooperative relations was stated to be the purchase of agricultural commodities by the consumer cooperatives. But these dealings were under the directives of the government rather than on the expectation and realisation of mutual benefit from such transactions. To what extent these transactions were to the mutual benefit has not been examined.

Krusch's paper is based on a study of eleven industrial cooperatives in the Cannanore district covering handloom weaving, hosiery and garment making, printing press, brass and metal work, beedi binding, hotel work and women workers. In the organisation of these cooperatives, trade unions and political parties are reported to have played an active role and these cooperatives are stated to be leaning heavily on their patronage and support. The only case of successful inter-firm cooperation cited is that of Dinesh, the central cooperative of the primary beedi binding cooperatives, providing raw materials to them and marketing their beedies under one brand name. The District Handloom Weavers' Cooperative Societies' Association was reported to be mainly engaged in lobbying with government and other governmental agencies.

IV

On going through all the papers in the three volumes one cannot but see the fact clearly established that self-help and mutual-aid groups whether formed spontaneously or through motivation, guidance and assistance of any promotional agencies, have been functioning in varied fields of economic activities and in widely varying geographical areas and socio-economic environments. Some function as informal groups and some have formal legal status through registration. In both categories, some have succeeded and some have failed. Yet the thread of cooperation as self-help and mutual aid has continued without any break.

The thrust of a number of papers has been that since many registered cooperatives have failed to provide satisfactory services, particularly in the field of agricultural credit, informal self-help groups could be used as agencies for mobilisation of local resources by way of deposits and for delivery of credit for the purpose it is needed and at the time it is needed on personal trust and security. The more enthusiastic advocates of the self-help groups have prophesised complete disappearance of agricultural credit cooperatives and have recommended policy to promote self-help groups in place of cooperatives. The villain of the piece in the tragic drama is the restrictive cooperative law, mindless and corrupt bureaucracy, and ambitious and unscrupulous politicians. While conceding the fact that these factors have taken a heavy toll in the cooperative movement, it cannot be denied that, despite these hostile elements, a number of registered cooperatives have functioned successfully in different areas and in different sectors as seen in a number of papers.

Further, it would be relevant to note that even the self-help groups have not been unfortunately immune from dissensions and political influences. Besides, today such-self help groups are few and far between. But when they get widely spread and when they form their own higher tier organisations, as recommended in some papers, and become strong and successful, one cannot be too sure that their leaders will not develop ambition to use their popularity for climbing up the political stairs or other political aspirants will not try to infiltrate and control these organisations for political purposes, as they have done in the cooperatives. But so long as they remain free from such influences they would certainly be useful.

It may not be out of place to recall that in the past agricultural cooperatives had provision for group loans to small groups of their members. The Rural Credit Survey Committee had recommended that the large-sized cooperatives recommended by them should promote savings groups like *bhishis.* But that was not acted upon. Now NABARD has been encouraging linking of self-help groups to the banking institutions. If primary cooperatives could be encouraged to promote such groups of their members for saving and loaning, the situation might improve.

In the context of liberalisation of the economy, various models have been suggested in some of the papers. But one point that needs to be emphasised is that unless in the suggested institutional arrangement, the basic feature of mutuality with participation in capital and management conditional upon utilisation of the services provided, is preserved, they cannot be regarded as even 'informal cooperatives'.

BOOK REVIEWS

Shah, A.M., B.S. Baviskar and E.A. Ramaswamy, (Eds.), *Social Structure and Change*, Vol. 2, *Women in Indian Society*, Sage Publications, New Delhi, 1996; Pp. 214, Price: Rs 265.

Not only the traditional classical literature and historical sources modelled the image of womanhood on the ideal behaviour of the upper classes of society and, accordingly, restricted woman's role to the home but also the earlier studies in social sciences trivialized her extra-mural role and activities in society. It was an inevitable outcome of class and gender prejudices, like the marginalised social status of working women who belonged to the lower socio-economic strata, although they constituted an invaluable productive asset. Eurocentric, masculinist social scientific views remained dominant in the non-Western world, and 'most social scientists had studied themselves over the past two centuries, however ... they had defined *themselves*, and even those studying "others" had tended to define the others as reflections of or contrasts to themselves' [Wallerstein, 1996, p. 55, emphasis added]. When the demand to end such parochialism and *open the social sciences* came up, gender emerged as a significant variable in social research. Feminists began to question the ability of the social sciences to account for their reality. And since the 1960s, the importance of gender studies and other non-Eurocentric studies to social science began to be acknowledged.

M.N. Srinivas is one of the pioneers who recognised sex as the organising principle of society and made Indian women more visible through his research and writings. The book under review is the second of the five volumes brought out as a tribute to his seminal contribution to social science. It comprises seven papers which show how gender-specific division is still perpetuated in every walk of life, even in India's post-Independence development planning and, as a result, how 'the interplay of external and internal factors and macro and micro processes affects the options available to women' (p. 26). For instance, the broadening of rural horizons through literacy, education and outside contact or economic development through mechanisation and specialisation results in deteriorating the status of women further because boys get the first opportunity to reap the benefits of such newly opened avenues.

The first three papers in the collection discuss how traditional gender and class biases and the conventional division of labour have been still leading to indifference to all aspects of women's employment. As mentioned in the preface, the papers are non-current but the issues examined - governmental data gathering agencies' failure to capture women's economic contribution and its corollary - are not, in spite of enumeration and computation of women's unpaid economic activity on farm and in family enterprise since the 1991 Census. Maybe, the issues discussed in the papers were taken up in various forums and successfully agitated for inclusion. For, the Census Commissioner does observe: 'the valuable suggestions made by the women's organisations with regard to completely netting the economic activity of women were taken into account while drafting the instructions to the enumerators and in designing training modules for them' [Government of India, 1991, p. 5]. The Central Statistical Organisation also implemented a project on Improvement of Statistics on Gender Issues in 1994-95 and started bringing out an annual, *Women and Men in India*, since 1995. The invisibility of working women may have lessened but solutions to their problem are yet to be found. The problem is 'How is it that both gender and class converge to reinforce the subordination of women (in work place as well as in family)?' (p. 108).

The first paper by T. Scarlett Epstein discusses the neglect of rural women's work-related problems. She traces the roots of this neglect in the invisibility of women's economic contribution to society, invisibility caused by both class and gender prejudices, in that working for wages or performing manual tasks is a mark of low status for both men and women, and women's participation in agricultural activities even on their own farms reflects a low social status of their families. 'Early historical sources refer almost exclusively to the lives of the members of the élite. ... There exists no role model of an Indian working woman, although it is reasonable to assume that even in the Indian historic past, the majority of women were engaged in directly productive activities besides looking after their family and home' (Pp. 35-36). Epstein argues that adoption of the élitist patriarchal cultural values by the villagers and their attempts to *sanskritize* are the main reasons for misreporting and under-counting in censuses. Thus, a sharp drop in women's employment is noticed: from 5.94 crore female workers in the 1961 Census to only 3.48 crore in 1971. While the percentage of female agricultural labourers increased from 23.88 in 1961 to 45.93 in 1971, that of female cultivators dropped from 55.69 to 27.98 in that decade (Table 1.1 p. 41). Farmers regard their women's life-style as a prestige symbol and census records as certificates of prestige ranking. That is the reason for misreporting.

However, what was the position before 1961 is not stated. Surely, patriarchal values and gender and class biases must have been stronger then. Further, Table 1.1 (p. 41) notes that the percentage of male cultivators also dropped from 51.44 in 1961 to 46.35 in 1971, while that of male agricultural labourers increased from 13.42 to 21.05 in that decade. One of the reasons could be pressure of population leading to fragmentation and landlessness. Urbanisation might have pulled villagers to more lucrative employment in towns and cities, for the Table also records a decline in the total number of rural workers.

The second paper by Joan Mencher, appraising women in landowning households in Chingleput district of Tamil Nadu, also finds fault with the census figures: '(i)n Tamil Nadu, as elsewhere, census materials have tended to under-report the involvement of women in agriculture. ... When it comes to cultivators, the census is even more inaccurate' (p. 61). She refers to indoctrination pertaining to status but gives other explanations which appear more cogent. They are: the census is generally taken during the slack periods in agricultural activity; and 'women are required to do many ... agriculture-related tasks which keep them away from the fields, and make them in a sense less visible as agriculturists', such as soaking seeds before they are sowed, taking paddy to the rice mill, cleaning, measuring and sorting the dehusked paddy, looking after the cattle, etc. (p. 70).

The third paper by Uma Ramaswamy also indicts statisticians for the invisibility of female contribution, but in non-farm enterprises. Self-employment and home-based production by women in the unorganised sector were not taken into account by the national database, until recently. Likewise, researchers in social sciences paid scant attention to women's participation in household economy till the 1970s. Ramaswamy's rationale for the amnesia is the proclivity of intellectuals and government authorities 'to attribute a connotation to work and productivity which relegates to the periphery much of the work that is not organized or a part of wage employment' (p. 84).

All the same, using the census statistics Epstein focuses on certain unequivocal consequences of such oblivion. Mencher argues on similar lines and, with the additional help of a survey, offers some more insights to gauge the gravity of those effects while Ramaswamy throws light on the repercussions in the industrial sector - organised and unorganised. They are:

(i) Due to official amnesia about women's economic contribution, the planners and administrators tend to pilot gender-specific developmental programmes, schemes and training in rural areas, e.g., nutritional training for women whereas training in new agricultural technologies for men. Such discrimination leads to widening of the gap between productivity of men and women. Epstein makes a valuable recommendation in this regard that the services of female agricultural extension workers and female information brokers be utilised, to get over women's cultural inhibitions and their lack of access to such facilities.

(ii) Women were considered as components of social welfare programmes and not of economic development. Department of Women was vested in the Ministry of Social Welfare, rather than in the Ministry of Agriculture and Rural Reconstruction and the Ministry of Industry. This affirms that the full potential of female labour power is yet to be recognised and also realised. Epstein's observation is right, because even in 1985, the Department of Women and Child Development was entrusted to the then newly set up Ministry of Human Resource Development, neither to any of the above Ministries nor to the Ministry of Labour.

(iii) Under the various poverty alleviation programmes of the government, a large number of poor households headed by women have not been able to avail of any benefits, 'as the delivery systems recognize men and not women as heads of households' (p. 90).

(iv) When extension workers try to get loans from banks and other financial institutions, they prefer men as the beneficiaries, in spite of women having excellent record of repaying loans, and in spite of the Reserve Bank of India waiving the guarantee for loans up to Rs 5,000 (p. 90). Women are denied membership of cooperative societies for not possessing any rights to the land as owner or tenant. The availability of credit is essential for women's economic development.

(v) Access to raw materials and markets is critical for economic ventures. To improve it, it is necessary to learn basic management skills, develop contacts and interface with mainstream institutions. In the case of women entrepreneurs, however, one additional input is necessary, that is altering gender specific constructs in the society at large and building awareness overall, not among the women alone.

(vi) With increased household income, there is increased substitution on farms for household females by hired labour. Yet some women continue to do field work beyond the point of absolute necessity in order to have some income, exclusively of their own. Female income is most often used for meeting household needs while 'income controlled by males is more likely to go in part into their "male status producing activities" or unproductive consumption' (p. 73). Yet, hardly any attention is paid to increasing women's productivity and income.

(vii) Due to the deeply ingrained biases of the customary division of labour and traditional sex roles, the Khadi and Village Industries Commission thinks it appropriate that women should take up food processing, tailoring and spinning yarn on the *ambar charkha*. These are poorly paid jobs. But innovative schemes to teach women new skills and better-paid avocations, are generally male preserves, for instance, weaving, driving automobiles, operating farm implements or working on the potter's wheel. Even within the family, males often refuse to do the work which is not considered appropriate for their sex. Usually, time-consuming, low-paid tasks are assigned to women, for instance, paddy transplanting, weeding, etc. All this results in unequal incomes and unequal burden of work. 'Equity and empowerment of women cannot be achieved by economic programmes without first attaining a social breakthrough' (p. 91).

(viii) Even in the organised sector, including the most modern industries like electronics, the gender-specific division of labour circumscribed by custom and tradition ensues women landing up in unskilled or semi-skilled jobs in assembly and in tail-end tasks associated with packing, filling, etc., in the production sector while in the service sector, low grade clerical jobs, like typing, are categorised for them. Their work is repetitive at high speed, exacting and monotonous. But, trade unions and labour movement are oblivious to their problems.

(ix) 'The majority of labour laws are unmindful of specifically women's issues, ...' (p. 87). Besides, employers take advantage of ineffective enforcement and loopholes in legislations to circumvent whatever beneficial provisions there are. The Bidi and Cigar Workers Act, 1966 - the only piece of legislation applicable to home-based workers - is hedged through adopting a contract system which fosters a chain of middlemen, adept at manipulation, to deprive female workers their dues, such as minimum wage, maternity benefit and provident fund.

(x) Finally, lack of information and knowledge on the many aspects of women's lives lead to several lacunae in the developmental programmes for women.

All these issues need visibility and discussion, in order to arrive at some way-outs.

The next three papers study the impact of women's arrival into labour market, education and modern medical education on the status of women in the society. They are by Neera Desai, Karuna Chanana and Aneeta Minocha, respectively.

Using existing studies and also primary data from her field study, Desai focuses on lower and middle class urban women and comes to the conclusion that women's familial role continues to get pre-eminence over their work role. She complains that women are considered secondary, supplementary workforce in the family as well as in the economy, and points out that because of the burden of dual jobs coupled with token rewards within the family as well as work place, women withdraw from work, when the family situation improves. Also, she speaks of employers 'ready to condone irregularity of time, flexibility of hours of work in times of family crisis, advance loans, and so on' in return for 'docility' and non-unionizing on the part of women. On the basis of these findings, she argues that the needs of the family and of the employer together lead to greater disadvantages for women, as well as perpetuate the myth of women being secondary earners and dispensable.

One may, however, disagree and claim that women have the best of both the worlds - home and work place. A study of seven developed countries concluded that 'women have emerged as very desirable employees ... because their relationship to the labour market has traditionally displayed the characteristics of flexibility, so much wanted to the current conjecture' (juncture?) [Shah and Gandhi, 1998, p. L.16]. The pertinent question is not whether women are viewed as reservoir of labour, but whether they are exploited worse than men. For, exploitation of workers in the unorganised sector is a universal malady, to which even the International Labour Organisation addressed only in 1996, by passing a Convention on Homework (ILO No. 177 dated June 20, 1996). With unemployment rate[1] in the urban India registering a rise from 5.9 in 1983 to 8.3 per cent in 1993-94, any employee should consider herself lucky to have the freedom of joining or leaving the job market, according to her priorities, maybe her family's priorities. But that choice she has to make: whether to give importance to family or one's own career. Will all women be happy to sacrifice family life for the sake of a career?

Further, it is doubtful that a mere higher status for women will eradicate social evils, like dowry, rape and wife-beating, as Desai claims. And, after all, how is a higher status defined? Desai herself states that it is not correct to look upon education, employment and franchise as steps towards achieving higher status for women. All these and even right to property, for which women in the Western countries had to put up a hard struggle, have been accorded to women in India after Independence. If participation in decision-making enhances the status, the 33 per cent reservation in panchayats and other local self-governing bodies should raise women's status. Has this happened? Will it happen, when the pending Bill for similar reservation in Legislative Assemblies and Parliament is passed? Aren't some more efforts required on the part of women's movements to change the attitudes and psyche of women, even from lower and middle classes, who are today enamoured by the image of a new woman akin to a beauty queen, through powerful media and advertising?

Chanana's paper on women's education in pre-Independence India is a well-researched document, presenting a detailed history of all its aspects. Factual data is presented, such as (i) the four agents[2] responsible for the introduction and advancement of women's education; (ii) the factors, like limited finance and low rate of retention, that slowed down its pace; (iii) educational statistics of the period between 1921-47 and the conclusions drawn from it; and (iv) region-wise and religion-wise variations and reasons for the same. The more valuable facet of the paper is, however, the light it throws on the then excitedly argued controversies and social debates over the issues pertaining to women's education. The author analyses these debates and the purely male perceptions of those days about the need for women's education, their role in family and society, their status, content and curriculum of women's education, and co-education.

Since the paper focuses on developments of the period between 1921-47, some interesting inputs are missing. Particularly, when Chanana asks 'why did girls' education make more progress in Madras and Bombay Presidencies? Is it because of an early start (which was true of Bengal Presidency as well) or because of social factors like the absence of *purdah* and prejudice against educating women?' (p. 115), she cannot forget the early start given by the social thinkers, like Jotiba Phooley and Dhondo Keshav Karve, who pioneered education for women in Bombay Presidency in the nineteenth century itself: the first schools were opened in Pune (the last place to come under British rule) in 1848 for girls and in 1896 for widows and orphan girls by these great reformers defying tradition. No doubt, in those early years, the British rulers supported their endeavours but not out of concern for female education or for education of the low caste Indians. In fact, for consolidating their rule and empire, they supported the reformers against the orthodox Brahmins, the erstwhile rulers of Maharashtra, perfectly in accordance with their policy of 'divide and rule'. Chanana refers to the period, when Maharashtrians had already realised the value of educating women and were more alert to grab the opportunity offered by governmental support.

However, in the case of the British missionaries' contribution to early schools for girls, she insightfully observes that they were started with a view to proselytizing, and that the Indian social reformers met the challenge adequately, for instance, Muslim social reformers and leaders set up schools for girls to counteract the impact of *zenana* schools of the Christian missionaries and also to uphold Islamic ideals. But here too, she is disappointed: 'Thus, even the proponents of reform among Muslims could not transcend the limits of traditional social structure' (p. 123). For they never wanted women to be educated or trained for jobs *at the cost of* their traditional social role (p. 144).

Chanana tries to differentiate between social change and social reform and objects to reformers propagating merely reform without basically altering the society, in the sense that women were given a particular type of education, say, domestic science and health education, for a limited purpose - for inculcating values appropriate to their traditional social role of housewife and mother, not for providing them equal opportunity for intellectual awakening or economic independence. Chanana protests that 'hardly anyone mentioned that the primary aim of education for boys was also to reinforce their social role... to be better fathers' (p. 144). Their social role was primarily of earners. Her criticism is only partially true. Education, given for whatever limited purpose, opens wider horizons. In fact, boys were also educated for a limited purpose: to be good clerks to run the British administration. Furthermore, social change is brought about by social reform which is the first step to transition. And again, how far is it appropriate to judge reformers of early twentieth century with the benchmark of the last decade of the century?

The next paper by Aneeta Minocha also traces the history of the interface between Indian society in the nineteenth century and the system of Western medical knowledge and practice. Although this interface was mediated by a colonial power busy strengthening its hold, Minocha argues, the intervention benefited women, both Indian and Western. Her convincing observations are, in short, as follows:

(i) The British brought allopathic medicine to India, primarily to provide modern medical facilities for themselves, also for the trained Indian personnel who worked for the East India Company.

(ii) They had several apprehensions about how a caste-ridden, purity/pollution conscious traditional society would react to the study and practice of a medical system involving actions, like dissection of dead bodies, considered degrading. The British were, therefore, reluctant to interfere with the beliefs and ways of life of the Indians. Although this is true in normal times, Minocha should not overlook the fact that during the periods of epidemics, like plague and influenza, the British did interfere, when their commercial interests were likely to be adversely affected, for instance, when the plague epidemic broke in Mumbai almost annually, it made workers desert Mumbai, and the foreign trade as well as production in cotton mills used to come almost to a stand-still. Hence, citizens were inoculated compulsorily.

(iii) Advantages of Western allopathic medical facilities provided by the foreign medical personnel, particularly in cantonments, were visible to all. Indians, therefore, began demanding such facilities. The British rulers, realising that Indians needed to be educated in Western medicine, in order to provide such facilities on a large scale, set up hospitals and medical schools, to provide systematic training for Indians in allopathy.

(iv) The provision of Western medical facilities as well as medical education was confined to males in India. Indian women had no access to any allopathic medical aid, even during difficult child births, the doctors being males. In the West also in those days there were societal prejudices about the medical services rendered by lady doctors. Ultimately, Western lady doctors deprived of patients in their home country travelled to India to provide medical care to Indian women who were allowed to be treated by lady doctors. Later, gradually, Indian women began to study allopathy.

The last paper by L.S. Vishwanath analyses, with the help of census data, the complexities of female infanticide and neglect of female infants among the Rajputs and Lewa Kanbis of Gujarat in the nineteenth century. These practices were, he concludes, determined by socio-economic status, that is, caste and financial position, as well as cultural traits. He argues that disproportionate demands for dowry (at times from hypergamous marriages) coupled with warrior-like rigid ideology among the Rajputs led to female infanticide and neglect of female infants. Unlike them, Lewa Kanbis did not have any uniform ideology. Yet the so-called high castes among them imitated the Kshatriya life style. These castes which had the convention of bride price switched to the practice of dowry with improvement in their socio-economic position. Vishwanath, however, refuses to answer whether its logical corollary will follow and these castes will begin practising female infanticide. He also points out that infanticide and deliberate neglect of female infants are observed in other castes and communities even in the post-nineteenth century, as late as in the 1980s among the Kallar of Madurai district in south India.

To conclude, the diverse issues discussed in this collection have one common thread - gender discrimination. All papers seek to show how it is manifested in various fields - from the severest form (female infanticide) to the mildest (not reporting female economic contribution to the census enumerators). They discuss, its reasons and recommend some measures to overcome it. Embedded as it is in the psyche of both men and even women, it will take a long time to disappear.

NOTES

1. Unemployment rate is defined as the percentage of unemployed in the labour force which comprises of workers and unemployed [Deshpande and Deshpande, 1998, p. L.32].

2. Christian missionaries, Indian social reformers who received Western education, foreign philanthropists interested in the cause of women, and the British government (p. 121). Also the rulers of the princely states of Baroda, Mysore and Travancore are mentioned on p. 114 (fn 3).

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Sharma, Pradeep K., *Foodgrain Economy of India - Government Intervention in Rice and Wheat Markets*, Shipra Publications, New Delhi, 1997, Pp. 160, Price Rs. 280/-.

This is an econometric study seeking to find quantitative influence of various factors determining prices, output, procurement, issue and commercial absorption of wheat and rice in India. The period selected for the analysis is of twenty years between 1970 to 1989.

The book is divided into seven chapters. After the first introductory chapter, the next three chapters review agricultural prices, price policy, production, absorption, procurement and issue of rice and wheat during the period of analysis. The fifth chapter is the core of the book, presenting the model of price system and the results of analysis. The last two chapters briefly discuss the recent economic reforms and policy implications of analysis.

After describing and reviewing the government policy and intervention in the form of procurement, import and issue of these two cereals, the author has tried to explain seven variables for wheat and seven for rice. They include procurement price, wholesale commodity price index, output, procurement quantity, public distribution quantity, and total commercial absorption quantity. All the 14 equations are estimated simultaneously through three-stage least squares. The broad conclusions of his analysis indicate that the procurement price is influenced by cost of production; issue price by procurement price; and wholesale commodity price by output and income (Gross Domestic Product). The output is found to be related with wholesale commodity price index, irrigated area and rainfall. The procurement quantity is influenced by output and wholesale commodity price, public distribution quantity by issue price and incidence of drought, and total commercial absorption by private consumption expenditure, wholesale commodity price and price of substitute cereal (wheat for rice and rice for wheat). Import, which is treated as an exogenous variable, does not appear to be significantly influencing any of the 14 variables.

While these conclusions appear to be reasonable, with most of the signs of the independent variables as logical, the findings of the study do indicate the justification of market interference by the government. The author is, however, an advocate of open market economy and liberalising food policy from restrictions and control. In this connection, it is difficult to verify his statement that 'a 10 per cent hike in fertilizer price would reduce output of rice by 2.0 per cent and wheat output by 2.6 per cent' (p. 154), since there is nowhere any mention of 'fertilizer price' as an independent variable in his system of equations or list of variables (excepting as an indirect input in cost of production, which appears to influence not output but procurement price and the latter not influencing output). The author's recommendation for investment in irrigation rather than providing fertilizer subsidy does not find much support from his quantitative analysis.

The study under review is no doubt a welcome addition to the literature on quantitative analysis of Indian market structure, although it lacks the necessary rigour in defining this structure and, to some extent, in selecting and defining the variables. It would have been better if all the data that are used in the analysis are included in the publication and given at one place. This is now obligatory in any serious study of this nature as the reader could verify results and carry the analysis further.

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Diamond, Larry, Juan J. Linz and Seymour Martin Lipset (Eds.), *Politics In Developing Countries: Comparing Experiences with Democracy*, Second Edition, Lynne Rienner Publishers Inc., London, 1995, Pp. 592, Price $23.50.

This book brings together the ways in which democracy developed and fared in ten developing countries of Africa, Asia and Latin America. It is based on an earlier study of 26 countries. undertaken since 1985, and updated from time to time. Each case has been examined with a rigorous theoretical perspective. The term democracy has been taken to mean only a political system, shorn of any social or economic dimensions, in which three conditions are satisfied, viz., (i) free and fair competition for positions of power, (ii) a highly inclusive level of political participation, no major social group being excluded from the rights of citizenship, and (iii) a level of civil and political liberties (p 6). Again, '(m)ore broadly, this volume's overall definition of democracy is heavily weighted toward electoral dimensions' (p. 173).

Such a democracy has, in the words of the authors, become the only model of government in the world with any broad ideological legitimacy and appeal (p. 2), and that while that concept has been under challenge from Muslim fundamentalism and the illiberal economies like Malaysia and Singapore, it has been steadily gaining ground all over the world.

With the above rigorous criteria for the assessment of democracies, the authors have naturally found that there are various grades of democracies in the various countries under study.

While examining what facilitates or obstructs the development of democracy, the authors have found that the most important factors are the general level of political culture, the socio-economic performance of the regimes in power, the skill with which conflict situations are managed by that regime, and the level of corruption among those who hold power (Pp. 6-7)

The book can be looked at in two ways: One, as a narration of the history of each country; the other, as an indication of the general trends and how far those are applicable to India.

As a narration of history, the book can be taken only as a general guide. Democracy has been developing in each of the selected ten countries for the last 50 years. In fact this development is a part of the world-wide development in which power has shifted from the hands of an armed state to the hands of, first the traders, then the producers of wealth and now perhaps to the managers of money and information. This shift has naturally been coloured by the legacy each state inherited when it began its shift towards democracy. That is why we see the military and the dominant classes wielding power for a long time, sometimes extending to the present day, even after the introduction of democracy. Actually, even in the developed countries, democracy does not literally mean 'the government of the people, for the people, by the people'. That is an idealistic definition, not an existentialist one. As recognised by the authors, even in the United States of America, 'democratic values have survived because the élites, not masses govern; and it is the élites, not the common people, who are the chief guardians of democratic value' (p. 360). Bernard Shaw has, in his introduction to his own play *Man and Superman*, drawn a very similar picture of the British democracy.

Thus, what decides the grade of democracy in any country is the nature of the élites which it already has or develops from time to time. It may be an élite steeped in an authoritarian past like that in Turkey, with an Islamic culture thrown in, or the monarchy plus Buddhist Sangha, as in Thailand, the old landed élite, changing to a new economic élite, as in Chile (and many other places), a charismatic leadership embodying a symbolic representation of the nation (p. 126), as in Brazil, (compare this with the 'Indira is India' statement of an erstwhile President of the Indian National Congress), the ethnic divisions among the élites in Nigeria colouring the administrative and political formations, the nature of the linkages between the bureaucrat-élites and all the above-mentioned structures, etc. What is important is Robert Dahl's theoretical judgement that democracy is better off (*sic*) when peaceful contestation among élites precedes mass participation (p. 137).

The book has devoted about 50 pages to each country. That is too limited a space for unravelling the intricacies involved in the history of any country. The book, nonetheless, gives us a very good broad picture of each country. We can take it as a stepping stone for further studies of each country. This review proposes to examine only the extent to which the theoretical framework developed fits the Indian experience with democracy.

The author of the chapter on India, Jyotindra Das Gupta, Professor Emeritus of Political Science at the University of California, Berkeley, looks upon the Indian experience with democracy as a great success, enabling one to say that 'the theorists of democracy were wrong in writing off the possibility of democracy's compatibility with the most stringent tasks of both economic development and political integration in developing countries' (p. 263). Das Gupta's historical account of the development of democracy in India confirms the theoretical framework mentioned above inasmuch as at least the first three of the four factors, mentioned above as influencing the development of democracy, were of a positive value in India. Only the factor of corruption had, in recent years, a negative impact on Indian democracy. The response to British colonialism was in the form of an inclusive liberal nationalism which, though challenged by radical and sectarian formations, won in the end, thanks to the skilful leadership of Mahatma Gandhi and Nehru. As regards the post-Independence developments, Das Gupta observes: 'Political reconstruction in India since 1947 has been remarkable for its consistent and continuous use of constitutional methods for generating national coherence, political stability, and the development of economic resources and political freedom' (p. 274). Das Gupta does take note of the Emergency and the personalisation of power during some intervening periods but has also taken note of the consensual politics pursued by Narasimha Rao. Das Gupta explains away the violent and agitational approaches of opposing groups on certain occasions in the following words:

> 'As competing groups canvass the lower depths of this maddeningly heterogeneous society to enlarge political support, the new political recruits are unlikely to be already well schooled in cherished norms of civility. When inducted into the political process, their initial impulse may move them to seek social mobility or at least to affirm their political rights. These expressions may not necessarily be peaceful or graceful. A part of the first act of engagement in a legitimate public space may be the compression of the accumulated distress of centuries into moments of rage or excess' (p. 311).

Das Gupta feels that in spite of these setbacks and impediments to the process of the stabilisation of democracy, the future of Indian democracy is good, particularly because of a large number of social action groups putting pressure on the regime for transparency, accountability and human rights.

Das Gupta has not mentioned any problems before Indian democracy, but there are problems. One is that of the instability of the central government, which can bring instability to industry and commerce and, more importantly, scare away foreign investors, whom we want so assiduously to cultivate. This problem is exacerbated by the weakening of national political parties in the face of growing regional formations or, worse still, the emergence of small groups centred round particular individuals. Any leader dissatisfied by the treatment given to him by his parent party finds a pretext to leave that party and float a new one or align himself with a party to which he had earlier shown uncompromising opposition. This aspect of Indian politics even endangers national cohesion.

A remedy that is being discussed currently for the problem of instability is that of adopting a presidential system of government. In a recent discussion on the All India Radio (April 27, 1998) Vasant Sathe, a leading protagonist of the presidential system, forcefully recommended that system as a remedy for the instability caused by a hung Parliament.

The present book contains a lot of material which helps us in assessing the merits and demerits of a presidential system. It shows that in most of the developing countries, the presidential system has thrown up a number of problems.

The introduction to the book points out that the president, in a presidential system, is in danger of either being given too much power or being deadlocked by the parliament. Another problem with that system, as the introduction points out is that the system is a zero-sum game, the winner gaining all and the loser losing everything, making the game a bitter one, leaving very little scope for accommodation and inclusive politics.

On the other hand, only inclusive politics can be truly democratic in a country like India, where there are a number of cleavages; those between religious communities, between linguist or ethnic groups, between the urban rich and the rural poor. All these cleavages have been exploited for political power and made worse by constructing ideologies in support of one section of the society or the other. The experience of other countries, as shown in this book suggests that the presidential system is unsuitable for managing such cleavages.

In the case of the presidential system in Chile, the relevant chapter says (p. 96):

> It is a premise of this chapter that in Chile there was an inadequate fit between the country's highly polarized and competitive party system, which was incapable of generating majorities, and a presidential system of centralised authority.

In India also we have today a highly political and competitive party system incapable of generating majorities. We have, in addition, the emergence of regional parties, which find it difficult to cooperate with the adversary national parties at the national level. The most glaring instance of this phenomenon is the difficulty which the Telugu Desam Party faces in extending its support to the Congress party at the central level.

The case of Nigeria is instructive so far as regionalism is concerned. That country has 248 languages but only 3 major ethnic groups accounting for two-thirds of the population. The British colonial system divided the whole country into four administrative regions. The northern region was more populous than all the other regions combined. When a federal structure was later created, the identity of the regions was maintained with the result that the northern region came to have a built-in dominance at the central level. This also meant a coincidence of the ethnic and the political cleavages, with the result that politics became a hotbed of ethnic rivalries, which were further exacerbated by the immense economic power acquired by the central government and an absence of any new élite which could operate independently of political power.

In order to break this coincidence of political structure and ethnic structure, Nigeria was eventually divided into 30 states. However this arrangement did not help the development of democracy. It rather made the central authority stronger, and the country finally lapsed into a military dictatorship from which it has yet to free itself.

In India also, we have the problem of the growth of regional power as well as the fierce competition for getting control over state patronage. The economic reforms ushered in India will eventually reduce the incidence of state patronage. The problem of regional power will remain. The BJP, which in its earlier incarnations was in favour of a unitary state of India, is today committed to a federal structure but has been propagating the idea of creating smaller states. While the creation of smaller states will in one way be an extension of democracy and the reduction of regional clout at the centre, it will accentuate another problem - that of making the centre stronger.

Such increase in the power at the centre will in turn accentuate another serious problem which arises in any country, with any government, a problem which the present book does not deal with. It is that of the vast executive power that vests in any regime. Under this power the executive can take decisions which may not have the full backing of the people, for example, the American involvement in Vietnam war or the secretive operation of the arms' transfer arranged by the Reagan administration for the Mexican rebels. Such exercise of executive power is certainly a negation of democracy.

The latest instance of the use of such power by the government of India is the conducting of nuclear tests. Whatever the merits of conducting these tests, the fact remains that the decision to conduct those tests was taken by a party commanding only 25 per cent of the popular vote and that the decision is a reversal of the policy formulated by all the governments of the past. The democratic credentials of such a decision must always be suspect.

The present volume avowedly lays great store by the electoral dimensions of democracy. Whether such electoral dimensions are sufficient to protect the basic liberties and rights of the citizens has recently been questioned by Fareed Zakaria in an article entitled 'the Rise of Illiberal Democracy' [*Indian Express*, May 4-5, 1998].

This points out to the necessity of formulating a fourth test for the assessment of democracy: How far does the government of the day reflect the social consensus and how far does it protect the basic rights, liberties and cultural values of the citizens in a pluralistic society. One wonders how many countries will pass this test.

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Singh, Satyajit, *Taming the Waters: The Political Economy of Large Dams in India,* Oxford University Press, Delhi, 1997, Pp. xiv+270, Price Rs 395.

The political economy of agrarian changes in India has been extensively discussed in development literature.[1] But, the aspect of politics of state and classes determining the process of irrigation development and the resultant agrarian changes as well as the distribution of hydraulic property rights are seemingly less explored. It is in this backdrop that the book by Satyajit Singh examines the political economy of the development of irrigation systems in India in relation to the politics of states and classes, and people's conflicts over use of water. This is a pioneering effort by a social scientist to enter into the domain hitherto dominated by civil engineers, sociologists and economists, who have considered the technological aspects of the problem alone ignoring the ecological and political economy issues underlining irrigation development in India.

The book, containing seven chapters, provides a critical review of the history of development of irrigation systems in India (Chapters 1-3) and examines the scope and relevance of economic and ecological evaluation of large dams (Chapters 4-6) in the context of the emergent 'green movements' (Chapter 7). The analogy based on political economy is centered on the author's firm conviction that: 'Indian state has followed a policy of irrigation which is beneficial to the privileged rich landed class, and through loopholes in the system, it even manages to favour a select clientele which is close to the political, bureaucratic and engineering conglomerate' (p. 181).

The author depicts the process of irrigation development in India as 'euro-centric' with its inherent class biases, which were instrumental in advocating a cropping system, wherein, 'the new crop varieties were decided on the basis of vested interests without taking into account the ecological compatibility of the crop and soil. This had also resulted in the neglect of indigenous irrigation systems, based on conventional wisdom, social structures and geographical specificities. Thus, it becomes evident that the colonialists have been successful in 'imposing an irrigation technology' which could do little to ameliorate the ill effects of famine and poverty in India.

In this regard, it is also important to understand the logical reasoning behind Whitcombe's [1972] pessimism[2] in explaining the political economy of irrigation development in India. If canal irrigation has not been effective in fostering agricultural development in India (as held by Whitcombe), why was there further investment for the development of irrigation system? This invariably points to the role of 'vested interests'[3] who had been successful in perpetuating irrigation systems to their advantage.

In the post-Independence era, there was a methodological shift in the criteria of project selection from 'financial productivity test' to the 'social benefit cost approach'. To the author, the new method was lucid as it opened up 'flood gates' for sanctioning new projects. Evidently, the irrigation outlay rose by about 91.27 per cent annually after 1966 until the end of the Eighth Plan, compared to an increase of mere 9.43 per cent during 1951-66, with the mounting losses from Rs 144.80 million in 1960-61 to Rs 565.90 million in 1967-68.

The author points to the fallacies in the planning and implementation of large scale irrigation projects and makes a case for their systematic and comprehensive accounting in terms of socio-economic, agronomic, ecological and environmental variables. It is obvious that the ecological considerations alone would make the large dams one of the most expensive forms of irrigation. He advocates the neo-classical methodology of environmental impact assessment as against the conventional *ex-ante* cost-benefit analysis. The neo-classical methodology considers the notion of positive discounting of natural resources and the use of technology and the potential substitutability of resources to enhance production on a sustainable basis.

A retrospective examination by the author shows that several large dams have been built with little thought to the actual conditions that may emerge in future, in contrast to the original project proposals. For instance, in Kerala state, most of the completed and ongoing irrigation schemes are designed for irrigating paddy and other garden crops, mainly coconut. But, the present cropping pattern in many of the schemes is dominated by dry/ perennial cash crops, particularly, rubber. Mention may be made of the schemes, viz., Kallada, Neyyar, Vamanapuram and Pampa irrigation projects wherein this shift in cropping pattern has caused greater delays in construction and commissioning of the schemes, on the one hand, and a total neglect of irrigation structures by the farmers as well as the irrigation department, on the other hand. This had resulted in increasing the gap between the actual and the potential irrigated area [Viswanathan, 1997]. However, as the author has rightly pointed out, such micro level analyses of the physical and fiscal performance of irrigation systems in India are largely constrained by the researchers' and public interest groups' inaccessibility to the information and data sources, which are being monopolised by the irrigation bureaucracy.

The impact of the new agricultural strategy on development of irrigation systems and the resultant agrarian changes in India is a matter in need of further empirical analysis. Apparently, the green revolution was more to the advantage of the industrial bourgeoisie and political lobbies, as it led to a spurt in agro-related industrial activities in the form of pumps, tractors, harvesters, etc., and the growth and expansion of certain sectors, like cement and steel, all of which have escalated the cost of project construction, with less impact on output expansion. 'For instance, the presence of the powerful sugarcane lobby requiring water and the industrial bourgeoisie requiring power in Maharashtra culminated in the state constructing and planning 631 large dams between 1952-79...' (p. 82).

The development of small scale irrigation in India is biased towards tubewell irrigation stimulated by the arrival of hybrid and improved seeds under the green revolution package. Also, there were no concerted efforts to have alternative irrigation technologies including small hydel schemes in the pre- and post-Independence periods, as the British did not consider agricultural requirements as related to power generation in the former period and there was the fascination for large schemes in the latter period.

The chapter, 'Winners and Losers' unfolds the real status of the sections of society left on margins by the development projects in India. The benefits accrued to some (winners) are at the huge cost of property and life of many (losers). The author regrets that the nation state which advocated large scale (technology-based) irrigation projects to remove wide-spread hunger and poverty has in time become the major beneficiary of a (high cost) technology that it has so successfully marketed (p. 172). Further, he holds little hope on 'large dams as instruments of egalitarianism' when he concludes: 'Large dams do little to alleviate the existing social inequalities; on the contrary, they further aggravate the already skewed social structure in favour of the socially, economically and politically powerful, thus throwing to the winds the socialist pretensions laid down in the Constitution' (p. 203).

In the chapter, 'Green Movements and Alternatives' the author examines the alternatives in irrigation which would supplement (rather than supplant) the present systems and ensure intergenerational and intra-generational equity. The author fears that the spread of drip and sprinkler irrigation methods would lead to commoditisation of water and cause a shift in cropping patterns and production relations, eventually marginalising the peasant. But such alternatives are indispensable, in the context of fast depleting water resource base, in achieving economy and efficiency in water use and ensuring uniform spatial distribution of water. To this end, the commoditisation or the emergence of water markets[4] could be an important solution and would not marginalise the peasant, as feared by the author. He underscores the importance of community participation in irrigation planning and management and the revival of the traditional modes of water harvesting including tanks, river based canals, rainfall catchments and ground water sources which would make the 'conjunctive irrigation' principle more meaningful.

The book is definitely a departure from the conventional historical analysis of irrigation development in India. It unravels the hidden 'political economy' issues in the whole process of irrigation development and explains well 'why the importance of hydraulic property rights have remained neglected or skewed even when the importance of land reform measures became part of the political agenda in the post-Independence India'. With ample survey of literature on irrigation development and related aspects, it also provides a valuable source of irrigation statistics including environmental impacts for the future potential researchers to work upon.

To a critic, it would offer issues for further scrutiny, as the author considers himself a critique of the colonial legacy to India. The author fails to link the process of irrigation development with the ongoing liberalisation and structural adjustment programmes. The changed policy environment definitely calls for a redefinition and re-orientation of hydraulic property rights especially in the light of scarcity and fast depletion of the water sources. However, the book would form a valuable source of reference for researchers, academicians, policy markers, the political scientists and the administrators and, definitely, a word of caution to the irrigation bureaucracy.

NOTES

1. See Bolding, et al., 1995, for a detailed review. This important work has not been referred to in the book under review.

2. 'Canal irrigation did and could do little to decrease the ravages of scarcity by expanding the sources of staple food supply; indeed its effect tended to be the reverse, to contract them' [Whitcombe, 1972, p. 75].

3. The emergence and growth of the vested interests were quite natural as, 'the British tried to foster the emergence of a middle class: cultivators who would be willing and able to invest capital in agriculture and raise productivity and thereby add to the revenue proceeds' [Ambirajan, 1978].

4. From a social point of view, moving to the water markets would be desirable as the availability of alternative technologies would help prolonging the use of an exhaustible resource and in increasing production even in the absence of some sort of government intervention to bring out the efficient exploitation of a common property resource (Shah, et al., 1993, p. 493).

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P.K. Viswanathan,

Haque, T., 1996; *Sustainability of Small Holder Agriculture in India,* Concept Publishing Company, New Delhi, Pp. 156, Price Rs 225/-.

There has been an ever growing process of 'marginalisation' of operational holdings in India, consequent on the fast deteriorating land-man ratio. The decline in land-man ratio resulted in the reduction in the average size of holdings and proliferation of small and marginal holdings. During the period between 1970-71 to 1990-91, the average holding size in India has declined from 2.28 ha to 1.54 ha. The average size of a small holding at present is 1.42 ha and that of a marginal holding is 0.38 ha [Kurien, 1990, Pp. A177-A188]. As a matter of fact, the significant fall in the size of holdings as well as the shortage of non-farm employment opportunities would have serious implications on the sustainability of livelihood of the small and marginal farming communities.

It is against this backdrop that the book by T. Haque, titled, *Sustainability of Small Holder Agriculture in India,* assumes significance. The present review is a modest attempt to highlight the need for evolving a 'region and crop-specific approach' to the problem of sustainability of small holder agriculture in the specific context of the agricultural development experience of Kerala, characterised by marginalisation of operational holdings and a shift in cropping pattern towards high value crop, viz., natural rubber.

The book contains six chapters including introduction and conclusion, and it is definitely an addition to the existing volume of literature on aspects of farm size and agricultural performance. The efforts of the author in conducting a survey of 900 farm households spread over states, viz., Andhra Pradesh, Bihar, Rajasthan and Haryana are indeed commendable. In the broader perspective of the farm size and efficiency debate, the author examines the profitability and sustainability of various agricultural enterprises, including crop production. Other aspects like the inter-relationship between farm size and employment, impact of forms of tenurial relations and tenurial status on the performance, efficiency and sustainability of small and marginal holders, are also subjected to detailed analysis.

The macro and micro level impact of the new technology on crop (basically cereals) production was proved to be marginal or insignificant as indicated by the negative returns per unit of net cropped area. It was also found that in states, viz., Assam, Bihar, Orissa and Madhya Pradesh, the levels of crop productivity were abysmally low, presumably because of the lower levels of technology diffusion and adoption (p. 59). However, it would have been more appropriate to use the 'income cost ratio' rather than the conventional 'net return criterion' for estimating the relative profitability of different size classes. Unlike the conventional net return criterion, the income cost ratio well explains the effect of both input use efficiency and scale economies on enterprise performance.

The scope and viability of other agricultural enterprises, viz., animal husbandry, aquaculture, horticulture and sericulture, are constrained by operational level issues, including infrastructural and institutional bottlenecks. Animal husbandry becomes unattractive if the farmers have to procure fodder and its concentrates, with the growing shortage of grazing lands. Fishery requires access to land, credit and market facilities and, once converted, fish tanks cannot be reverted back to cropping lands. Horticulture and floriculture activities need to be supplemented with investments in sprinkler and drip irrigation methods. Moreover, the viability of enterprises, like animal husbandry needs to be examined specific to different agro-climatic environments defined in terms of dry, arid and semi-arid regions. For instance, in relatively dry areas, animal husbandry could be a viable option as vast tracts of uncultivated common lands are available for grazing the ruminant livestock.

While reviewing the farm size and productivity debate, the author underscores the need to examine the productivity differences across technologically poor and advanced regions and across crops. The fact that technologically developed regions have established strong inverse relationship between farm size and productivity, proves beyond doubt that under favourable conditions, small and marginal farmers adopt new technology. By arguing that the overall socio-economic status of the farm household has considerable impact on farm productivity (p. 99), the author conceals the fact that very often the current socio-economic status of the household is determined by its land based asset position inherited or acquired in the past.

The author examines various forms of tenancy relations (Pp. 111-12) existing in India and their impact on productivity and efficiency of small farms. According to him, the system of owner cultivation (T_1), using family labour is supposed to be most efficient, provided the family labour does not have a high opportunity cost. Similarly, in technologically developed regions, capitalist farms (T_2) would be superior in terms of crop productivity.

Highlighting the experiences of Japan and Korea, the author makes a case for the development of a parallel non-farm sector generating employment opportunities and, thereby, disallowing the 'overcrowding' effect on agriculture (p. 85). He also brings out the importance of infrastructural and institutional intervention mechanisms in imparting technological innovativeness, along with equipping the small and marginal farmers to bear risks involved in farming operations.

In spite of the author's concern over the impact of liberalisation on the small and marginal farmers, there is no supportive evidence of the impact of policy changes on the larger segment. Though it is likely that the government may withdraw the protection extended to the farmers under the World Trade Organisation (WTO) directives, the author strongly feels that, in the Indian context, the new economic policy would mean only a reduction in subsidy and price decontrol, as land is privately owned unlike in the socialist countries. The 'rich farmer bias' of the protection/subsidy programmes, as argued by the author, is apparently inconclusive in the absence of supplementary evidence. Moreover, the question of the impact of new economic policy need a more realistic approach.

The author argues that a shift in cropping pattern in favour of high value crops would not be a viable proposition for the small and marginal farmers purely on food security reasons. But, Kerala forms an exception (the author also admits this fact) to this, where plantation/perennial crops could sustain the livelihoods of small and marginal holders in particular. As evident, the process of marginalisation is more pronounced in the state as 92 per cent of the operational holdings fall under 'marginal holdings' category, occupying only about 48 per cent of the operational area. The average size of an operational holding has declined from 0.57 ha in 1970-71 to 0.33 ha in 1990-91. The average size of a marginal holding in the state is 0.18 ha. As of now, perennial crops constitute 58 per cent of the total cropped area in the state. Among the plantation crops, the growth of rubber plantations has been spectacular as the area under rubber in total cropped area of the state has remarkably increased from 3 per cent in 1952-53 to 14 per cent in 1994-95 [Government of Kerala, Relevant Years].

The dynamic transformation of rubber from a 'plantation crop' to the 'small growers' crop' and the subsequent area expansion was the outcome of the successful institutional intervention by the Rubber Board through its Research and Development (R&D) efforts supplemented with new planting and replanting subsidy schemes. As a result, almost 97 per cent of the smallholdings are below 2 hectares, with an average holdings size below 0.5 ha. accounting for 84 per cent of the area under the smallholdings. Interestingly, rubber at present is grown even in homesteads of 0.25 ha or below [Rubber Board, 1997].

Rubber cultivation ensures sustainable flow of income to the farmers (irrespective of scale of operations) as the latex extraction process is done throughout the year, unlike the seasonality of agricultural operations in the case of other crops. The small and marginal farmers have also diversified a substantial portion of the surplus generated through rubber cultivation to various income generating streams, including investment in human capital, particularly, higher education. This had its impact on external and internal migrations, inflow of income to the state and further investment in plantations. Mention may be made here of the pioneering efforts by the early migrants from the Travancore (Central Kerala) region who have been instrumental in the development of rubber plantations in the Malabar (North Kerala) region and reinvestment of the surplus in plantation development elsewhere, particularly in the bordering regions of Karnataka.

To sum up, though the book is titled as *Sustainability of Small Holder Agriculture* the concept of sustainability is not well conceived and interpreted in terms of 'sustaining the livelihood strategies of the small and marginal holders'. The book should have been enriched by incorporating information on the socio-economic profile of the small and marginal farmers, like their family size, occupational pattern, educational status, asset base, etc. Such indicators have considerable impact on sustaining the livelihood of the small and marginal farmers. Moreover, the Kerala experience underscores the need for region and crop-specific approach to the unresolved 'farm size efficiency debate' in general and the question of sustainability of smallholder agriculture in particular.

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ANNOTATED INDEX OF BOOKS AND ARTICLES IN INDIA

EDITOR'S NOTE

These abstracts are prepared by the author of each book/article sent to us voluntarily in response to our invitation through the Economic and Political Weekly. These cover publications after 1st January 1986. Only abstracts of books/articles so received are published. The index, therefore, is not exhaustive and complete.
The limit of 250 words and 100 words for abstracts of books and articles, respectively, is strictly enforced. Only a minimum amount of copy editing is done in order to bring the abstracts within the prescribed limits. The readers should approach the author of the abstract, not this Journal, for any clarifications.

BOOKS

1996

Dhawan, Rajeev, *Firm Size Financial Intermediation and Business Cycle,* Commenwealth Publishers, New Delhi, 1996, Pp. (xv)+182.

This book is the outcome of a doctoral dissertation programme at the University of California, Los Angeles. Its two noteworthy features, are, first, the extension of the real business cycle paradigm to incomplete market economies and, second, the use of panel data techniques to estimate parameters of macroeconomic interest. Its focus is on the implications of introducing private information into a real business cycle framework. The analysis has been carried out with the help of a computable stochastic general equilibrium model. The model is calibrated so as to provide precise answers to two issues. One is to assess the welfare costs of credit market imperfection. The other is the study of its effects on the business cycle properties of the model.

Analysis of a large panel of publicly traded American firms for the period 1970-89 reveals the positive role of internal funds on their investment behaviour, especially for smaller sized firms. Additionally, the book finds evidence to the fact that small firms out-perform large firms with respect to their productivity, profitability and growth, but are also more risky with a higher probability of failure. A striking prediction of the model is that small credit market frictions have large welfare implications for the economy as a whole. Finally, the model is capable of reproducing the cyclical fluctuations at the aggregate level, especially the characteristics of the labour market, namely, the low correlation between real wages and hours worked.

The Journal will publish in its issues Annotated Bibliography of Books and Articles on Indian Economy, Polity and Society, published after January 1, 1986. Authors are requested to send their entries with full details of publication and annotation not exceeding 250 words for books and not exceeding 100 words for articles. Use separate sheet for each entry.

BOOKS RECEIVED

Currently, a large number of books are being published on Indian economic political and social problems and developments. We give below a list of books we have received with a request for a review. For want of editorial resources, it is not possible to review ali of them though many deserve a critical review. Interested readers are requested to write to the editor indicating which of the following books s/he would like to review or write a full review article on. We shall be glad to do the needful. Readers are also welcome to review books recently published, but not appearing in the following list. As the contributors to this Journal are aware, all contributions published here are adequately remunerated.

Balachandran, G., *The Reserve Bank of India: 1951-1967*, Reserve Bank of India and Oxford University Press, Delhi, 1998.

This is the second volume of the history of the Reserve Bank of India. It discusses the Reserve Bank's role, the one assigned to it by the legislation, that is, securing monetary stability and operating the currency and credit system in the best possible way. But, the volume focuses primarily on the far more active role that the Reserve Bank played after 1951, when it was entrusted with creating the machinery needed for financing planned development, and ensuring that finance flows in the directions intended. Based on unrestricted access to official documents, the book surveys the attitudes, policies and events within a wider social, political, economic and intellectual context, and narrates how the Bank, as the country's monetary policy authority, discharged such wide range of responsibilities and met the challenges of a developing economy in the first crucial years after Independence. How the demands that were made on it transformed it considerably and the Bank's organisational history will form the subject matter of the next volume.

Chapter 1 outlines the environment that steered the Bank's monetary policies during the 1950s and the 1960s while Chapter 2 throws light on its efforts to come to terms with deficit financing. Chapters 3 and 4 provide a chronological account of the Bank's monetary policies during the first three Five Year Plans. Chapters 5 and 6 are devoted to mobilization of resources by the Bank for the central and state governments (of Part A states). Chapters 7 to 10 deal with the follow-up to the *Report of the All India Rural Credit Survey*, and with the Bank's part in institutionalizing long-term credit for agricultural sector while Chapters 11 and 12 with the regulation and strengthening of the commercial banking system. The Bank's role in promoting and diversifying the sources of industrial credit by channelising household savings through initiation of financial intermediaries, is discussed in Chapters 13 and 14. The last three chapters delineate on how the Bank administered the country's external reserves, and managed the crisis and devaluation of 1963-67. In addition, there are seven appendices, about 300 pages of selected documents, tables, illustrations and quite a few of Laxman's articulate and apt cartoons.

Dasgupta, Biplab, *Structural Adjustment, Global Trade and the New Political Economy of Development*, Vistaar Publications, New Delhi, 1998.

This book contains a comprehensive critical analysis of the approach of the two Bretton Woods Institutions (Fund-Bank approach) to development in less developed countries (LDCs), that is, the analysis of the structural adjustment package sponsored by the World Bank in 1980 and supplemented by the stabilisation package of the International Monetary Fund (IMF). It mainly draws on the material and research produced by the staff of these very Institutions.

Chapter 1 presents the layout of the book while Chapter 2 delineates on the theoretical underpinning of the structural adjustment, i.e., the New

Political Economy (NPE), since adjustment always involves some finance and a set of conditionalities. The NPE theory is criticised for various reasons such as internal inconsistencies, a historicity, its orientation towards justifying market-centred economic policies under authoritarian regimes, its dependence on the rich world institutions for its success, and for its ignorance of the importance of institutional factors in the development process. Its only redeeming feature, it is argued, is its analysis of the 'rent-seeking behaviour', characteristic of controlled economies; it shows what corruption at high places can do to the political environment of a country.

Chapter 3 traces the role of the two Bretton Woods Institutions (BWIs) and highlights both, their irrelevance today to the developed countries, but their enormous influence on the economic life of the LDCs. It also analyses in detail the main conditionalities in structural adjustment and stabilisation programmes (SAP), the relationship between the BWIs and the recipient countries, and the performance of the countries under structural adjustment.

In Chapter 4, the focus is on the essential similarity of views on trade related issues between the BWIs and the World Trade Organisation (WTO) which replaced General Agreement on Tariffs and Trade. It also examines in detail the trade-restricting practices of the rich countries, the distinguishing features of the multinational corporations (MNCs), and their implications for the host countries. Chapter 5 is devoted to the relationship between structural adjustment and protection of global and national environment. Such issues as the principles of 'polluter pays' and 'compensation', pricing of natural resources and taking them from public to private ownership, and the global commons and global environmental control, etc., are discussed.

Chapter 6 investigates the question whether the East Asian development experience conforms to the norms laid down for SAP, and comes to the conclusion that at least Japan, South Korea and Taiwan violated all such major norms and yet managed to maintain a very high rate of growth. Success is attributed to factors, like the interventionist role of the state in promoting indigenous industries and exports, land reform, repression of labour, human development in terms education and health, etc. Chapter 7 offers a global overview of countries, most of which are operating under SAP - two in East Asia, four in Southeast Asia, several countries in Sub-Saharan Africa, and three from Latin America. In addition, a separate section is devoted to India. The broad conclusions of the study are summarised chapter-wise in Chapter 8 while an 'Epilogue' at the end discusses recent economic developments, such as the financial crisis in Southeast and East Asian Countries and the possibility of a significant disjunction of outlook between the two BWIs, also between the two largest shareholders of the World Bank.

Deogaonkar, S.G., *Parliamentary System in India*, Concept Publishing Company, New Delhi, 1997.

This book provides a broad, preliminary introduction to the constitutional provisions for Parliament, its structure, its relations with the other two wings of the state as well as with the cabinet, its role as the nation's law-maker, and also the actual functioning of its two Houses. Topics, such as Parliamentary committee system, Parliamentary privileges and the Parliament Secretariat, are discussed to cover as many aspects of Indian Parliament as possible. References to recent Parliamentary events are spread all throughout the book, thereby giving it a current flavour.

Krishna, Anirudh, Norman Uphoff and Milton J. Esman (Eds.) *Reasons for Hope: Instructive Experiences in Rural Development*, and Uphoff, Norman, Milton J.. Esman and Anirudh Krishna, *Reasons for Success: Learning from Instructive Experiences in Rural Development*, Vistaar Publications, New Delhi, 1998.

The first of these two books is a collections of 18 case studies of rural development from Asia, Africa and Latin America and are expected to instil hope for on-going efforts to broaden the base of rural development in various countries of the Third World. They show how the lives of a large number of poor and marginal households have been uplifted through their own efforts, with well-conceived assistance from persevering agencies - governmental and non-governmental - and individuals. The case studies reflect views of insiders on purposeful, people-centred rural development and illustrate how inspired leadership, thoughtful planning, enterprising management, and, above all, local initiative brought about effective combinations of participatory and administrative organisations which mobilised internal and external resources, chalked out strategies, used appropriate technologies and incentives, and built confidence and creativity in all involved. In addition to the widely recognised cases, like the Grameen Bank in Bangladesh or the AMUL Dairy Cooperative in India, some lesser known projects that have been remarkably successful in altering the perspectives of their participants have been included, in order to assure that these are neither experiments nor 'hot-house' projects in most favoured conditions, nor pilot projects, and that there are substantial reasons for anticipating successful expansion of developmental programmes, despite the distressing economic, environmental, political and social crises that the world faces at the turn of the century.

The second volume is a companion volume which includes a few more case studies of some deserving projects and programmes, not incorporated in the first volume, like Self-Employed Women's Association (SEWA) in India. Thus, the two volumes together review a variety of projects, reflecting a wide range of experience across sectors and across regions. But there is a difference between the two volumes: in anthropological terms, the first presents an *emic* view, while the second an *etic* view. Comparing and analysing the factors that contributed to the workability and sustainability of the projects, the second volume summarises the objectives of rural development, as spelt by the rural people themselves: improvement in productivity, well-being and empowerment. Productivity means to them access to factors of production and increment in their purchasing power; well-being denotes freedom from want, living in dignity, health and nutrition, and knowledge and opportunities acquired through literacy and education; while empowerment symbolizes for them a degree of control over their own destiny and ability to resist encroachment on their economic and cultural interests. The volume, while drawing the lessons to be learnt, stresses that success and sustainability of a project are to be measured not in economic terms alone but also in terms of meeting the needs and hopes of rural people. It gauges achievement on the basis of what is maximised: not private profit of some creative entrepreneurs like Henry Ford, but socially defined and distributed benefits, especially for the disadvantaged. Four criteria are identified as standards for evaluation: (i) resource mobilization, (ii) scaling up and expansion, (iii) diversification, and (iv) continual innovation.

Kumar, Vinita, *Economic Growth and Rural Poverty: The Indian Experience (1960-95)*, Concept Publishing Company, New Delhi, 1997.

This monograph studies the impact of economic growth on poverty. It tests the hypothesis that not only the *rate* but the *nature* of economic growth also has crucial impact on employment, income distribution and poverty. The former is governed by the market forces while the latter by the institutional and structural relationships. The scope of the study extends to rural poverty and, here also, only to agricultural growth in crop production, though the impact of non-agricultural growth and of diversification of the rural economy has been taken into account and examined.

Chapter I analyses the concept and definition of poverty in the Indian context while Chapter II, processes of growth as they affect level of per capita income of farmers. Chapter III studies factors affecting incomes of agricultural labourers. Chapter IV reviews growth of sectors allied with agriculture, like dairy, poultry, fishery, etc., which has contributed to reduction in rural poverty. Governmental policy measures for bringing about distributional justice to the poor, and assessment of the impact of agricultural input subsidies and food subsidies on food prices and consumption form the subject matter of Chapter V. Based on data of the 50th Round of Consumer Expenditure Survey (1993-94) by the National Sample Survey Organisation, Chapter VI analyses the trend in rural poverty during the 1990s after the initial years of economic reform. The last chapter identifies the major constraints on rural development, and suggests alternative strategies to increase productivity, create more employment, improve the efficacy of governmental programmes and make the rural poor participate more and respond better to the economic process of growth.

Nair, Janaki, *Miners and Millhands: Work, Culture and Politics in Princely Mysore*, Sage Publications, New Delhi, 1998.

This monograph seeks to find out what the meaning and value of work were for those who laboured in the mines and mills of Mysore (now Karnataka) during the early years of industrial capitalism in India. It is based on the ground rule that work was never just an economic activity for the labour that had migrated to work in the Kolar Gold Fields and mills and factories of Bangalore, but a transformation of their cultural milieu and social relations, which were defined over several generations. The book throws light on this emergence of the working class from the former submissive unorganised rural workers: how they developed techniques of survival, negotiated the complexities of the capitalist workplace as well as of their slum neighborhoods, and how certain new ideologies of rationalism, nationalism, religious reform or even monarchial power enabled them to forge alliances and gain political confidence to confront with maturity the power and authority of the state and the factory or mine authorities. Preferring a thematic format with emphasis on episodes, interviews and songs, rather than on wage and price data, and developing the perspectives from below, the study presents a parallel account of the conditions of work and living, power relations and cultural life in the two premier centres of industry in the early twentieth century.

Pinto, Vivek, *Gandhi's Vision and Values: The Moral Quest for Change in Indian Agriculture*, Sage Publications, New Delhi, 1996.

The book constructs a theoretical and methodological framework to examine the feasibility of applying Gandhiji's precepts to the poor and disempowered millions in the agricultural sector in the context of the contemporary open market economy. Chapter 1 addresses to Gandhiji's religiously shaped views on agricultural development, as enunciated in his *Hind Swaraj* (1909). Chapter 2 explores their relation to agricultural issues of the period between 1909 and 1948. Chapter 3 reviews post-Independence planned agricultural development between 1951-74, in the light of the Gandhian critique in Chapter 2, and demonstrates that it has failed to resolve the problem of poverty. Chapter 4 shows the relevance of some Gandhian experiments to the present struggle for achieving development with a human face, that is, true *Swaraj* in Gandhian terminology.

Rahul, Ram, *Central Asia: An Outline History*, Concept Publishing Company, New Delhi, 1997.

Central Asia, because of its unique location, has generally been studied in the context of its neighbours, like Iran, India, China or Russia but hardly ever in its own context, from the inside outward. The present volume is an attempt to do so. It presents in a nutshell the history of Central Asia from the ancient to the present times. Central Asia is the central region of the continent of Asia, between two almost equal flanks: East Asia and West Asia. Central Asia is encircled by Mongolia and China in the east, India, Bhutan, Nepal and Afghanistan in the south, Iran and the Caspian Sea in the west and the Ural mountains and Russia in the north. In modern times China and Russia possessed it equally; between the 1960s and the 1980s, they also contested for supremacy there. In the mid-1991, Russia withdrew from its part of Central Asia while China continues to hold its part. The Russian held West Central Asia emerged politically as independent states of Kazakistan, Kirgizstan, Tajikistan, Uzbekistan and Turkmenistan. But the Chinese still possess East Central Asia consisting of Tibet and Xinjiang. Imperialism has been its most significant dimension all through the history.

Remedios, Avellino (Compiler), *Mythos and Logos of the Warlis: A Tribal Worldview*, edited by Ajay Dandekar, in *Castes and Tribes of India Series 4*, Concept Publishing Company, New Delhi, 1998.

The Warli legends and myths are presented in this collection in both the languages, English and Warli (a dialect of Marathi) - Warli in Devnagri script. The collection acquaints readers with the history and culture of the Warli tribals. Although the government policy of 'integration not assimilation' is intended to leave some autonomous cultural space for tribals, the cultural and ethnic identity of the Warlis is threatened by the onslaught of modern development and urbanization. This book is an attempt to record and preserve this culture as depicted through songs and stories before it is extinct, lost in an ethnocide. The myths and legends are rigourously verified and critically reviewed.

Saberwal, Satish and Heiko Sievers (Eds), *Rules, Laws, Constitutions*, Sage Publications, New Delhi, 1998.

This volume is conceptualized from papers submitted for a seminar, entitled *Constitutional History and Rule of Law*, held in Bangalore in February 1995, and a 1995 issue of the journal *Seminar*. It envisages general rules as indispensable for intellectual activity in any sphere: personal, governmental, scientific, and so on. It is further argued that legal rules (law) constitute a subset of such general rules and that constitutions form a further sub-genre of law, but concurrently, a framework of higher order legal rules to provide foundation and rationale for specific legislations and subsequent adjudication.

Further, the concept of rule of law - exercise of governmental power to safeguard individual liberties - is elucidated with illustrations of United Kingdom, European Union and China. The collection also includes papers on varied themes such as insanity in law, homogeneity, identity crisis and group rights, personal laws in India, learning law outside the law school, etc.

Sharada, P.V., *Radio-Television and Elections*, in *Concept's International Series in Communication, Education and Development, 2*, Concept Publishing Company, New Delhi, 1998.

This monograph is an attempt to bring political campaign and the resultant influence on voters in the realm of empirical research. It is an opinion-oriented research which studies the effectiveness of radio and television as media for election campaigning, from the perceptions of politicians, rather than the audience or the journalists. With the help of a detailed questionnaire, it assesses the levels of knowledge and understanding of 100 different party leaders about party broadcasts/telecasts in Andhra Pradesh during the mid-term 1991 general elections to the Lok Sabha. The leaders' opinions about the programmes, their suggestions for better presentation, their preferences, their conceptions about audience (voters) are analysed using age, political position, that is position in party or in government, and affiliation to party as variables. Valuable minority responses and even individual responses are presented in the analysis.

Vazhayil, Joy, *Facets of Freedom: A Moral and Political Analysis*, Concept Publishing Company, New Delhi, 1997.

With the help of an inter-disciplinary approach, the book analyses two facets of freedom, moral (freedom in the internal sense) and political (freedom in the external sense), and the inter-connections and variations between the two. While conceptualizing the mechanism of moral freedom, the analysis finds certain correspondence between some mental processes and physical processes, like the conscious process and quantum process at the most fundamental level and, therefore, studies the relevance of quantum causality to the actions of human will. It concludes that moral freedom is a multifaceted phenomenon originating from such factors related to the human mind as spilt-will, conscience, reason, instincts, intuition and creativity. On the other hand, the discourse maintains, political freedom is the product of civil societies, and defines it as the right to operationalise one's own ideas of freedom without denial of a similar right for others. Political freedom, it is claimed, not only ensures justice and equality to all but also harmonises the claims of liberty and justice with the minimal exercise of power. Hence democracy, because of its commitment to political liberty, emerges as the political organisation with the maximum potential for optimisation of justice-liberty-power triad.

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Maital, S., 1973; 'Public Goods and Income Distribution', *Econometrica*, Vol. XLI, May, 1973.

Chakravarty, S. 1987; *Development Planning: The Indian Experience*, Clarendon Press, Oxford.

If a Reference is cited in a Note, the Note may use the shortened reference form:

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