

# **Journal of Indian School of Political Economy**

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**A Journal  
devoted to  
the Study of  
Indian  
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## JUDICIAL ACTIVISM (II): POST-EMERGENCY JUDICIAL ACTIVISM: LIBERTY AND GOOD GOVERNANCE

S.P. Sathe

*In the paper published in the last issue of this Journal, the author had traced the evolution of judicial activism of the Indian Supreme Court from 1950 till 1973, when the Court laid down the basic structure doctrine as a limitation upon the constituent power of Parliament. In Judicial Activism (II), the author analyses the experience during the post-emergency period. During emergency, the Court did not acquit itself well at the bar of the people. It projected itself as a helpless witness to the demise of individual liberty and the rule of law. The emergency regime was rejected by the electorate but the scars it left on the face of the Supreme Court remained. During the post-emergency period, the Court had to regain its lost social legitimacy, which it did by liberally interpreting the Constitution so as to expand the rights of the people and facilitating access for the common man. In this paper, the author deals with the Court's contribution to the doctrinal law during the last twenty-four years and points out how the Court has assumed the function of judging the rightness of the political decisions of the legislature and the executive. The Court has, therefore, become a political institution in the sense that it has to take political decisions though political decision-making by the Court follows different criteria from those followed by the other organs of government in taking political decisions. The Paper traces how the Court undertook intensive scrutiny of the political decisions of the executive including those taken in the name of the President and what parameters it applied for such evaluation. The subject of access which would require an in-depth analysis of what is popularly known as public interest litigation will be covered in the forthcoming paper. We shall also undertake an analysis of why judicial activism and public interest litigation have received such overwhelming public support. At the end, it will be necessary to point out the dangers of activism running riot and disregarding the borders which the doctrine of separation of powers has drawn.*

### INTRODUCTION

The post-emergency period (1977-98) is known as the period of judicial activism because it was during this period that the Court's jurisprudence blossomed with doctrinal creativity as well as processual innovations. Activism, however, can easily transcend the borders of judicial review and turn into populism and excessivism. It is populism when doctrinal effervescence goes beyond the institutional capacity of the judiciary to translate the doctrine into reality and it is excessivism when a court undertakes responsibilities which should normally be discharged by other co-ordinate organs of the government.

Before the Court embarked upon activism, it had to overcome the negative image which it had acquired due to its decision in *A.D.M. Jabalpur v. Shiv Kant Shukla* [AIR, \* 1976, SC, p. 1,207], popularly known as the *Fundamental Rights case*.

### FUNDAMENTAL RIGHTS CASE: JUDICIAL SURRENDER

Although the Supreme Court of India became the most powerful apex court due to its power to invalidate even a constitutional amendment, its institutional weakness was ultimately revealed through its decision in *A.D.M. Jabalpur v. Shiv Kant Shukla*. Article 352 of the Constitution provides for the proclamation of emergency by the President, 'if he is satisfied that a grave emergency exists whereby the security of India or any part of the territory of India is threatened, whether by war or external aggression or internal disturbance'. This was the third proclamation under Article 352 made since the commencement of the Constitution. The earlier two proclamations had been necessitated by wars with China in 1962 and Pakistan in 1971. When a proclamation of emergency under Article 352 is made, the fundamental rights guaranteed by Article 19 (freedom of speech and expression, freedom to assemble peacefully without arms, freedom to form associations, freedom to move within the

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\*Long forms of all abbreviations are given at the end.

territory of India, freedom to reside and settle in any part of the territory of India, freedom to acquire, hold and dispose of property and freedom to practise any profession, or to carry on any occupation, trade or business) are suspended and any law made in derogation of those rights and any executive action taken under such a law is valid until the proclamation of emergency is revoked (Article 358, Constitution). The President is given power to suspend the right to move any court for the enforcement of such of the fundamental rights as he may specify in his order (Article 359, Constitution). During the 1975 emergency, the President had issued an order under Article 359 of the Constitution suspending the right to move any court for the enforcement of the fundamental rights guaranteed by Articles 14, 21 and 22 of the Constitution. Earlier in *Makhan Singh Tarsikka v. Punjab* [AIR, 1964, SC, p. 315], which had arisen out of a similar order issued by the President during the first emergency declared in 1962, the Court had held that while one could not assert his right to life or personal liberty guaranteed by Article 21 of the Constitution, one could ask the Court to examine whether an order was *ultra vires* the Act or whether the authority had acted *mala fide*. But the 1975 emergency was not like the 1962 emergency. While under the 1962 emergency, maximum care had been taken to cause minimum abridgement of personal liberty, under the 1975 emergency, maximum care had been taken to ensure that no vestige of liberty survived. The Attorney General, Niren De, therefore argued that during emergency, even if the Executive shot a person dead or put him in prison, he could not invite the Court to examine the validity of such an action. What did the suspension of the right to move any court for the enforcement of the fundamental right to life and liberty guaranteed by Article 21 mean? Did the rule that the Executive could not take away an individual's liberty unless the law authorised such taking away of liberty emanate from Article 21? Or did it exist independently of that Article as a basic principle of the rule of law? The respondents wanted the Supreme Court to examine whether the acts of detention were in accordance with the provisions of the Maintenance of Internal Security Act (MISA) under

which they had been ordered. The basic rule of English jurisprudence is that no one can be deprived of his liberty unless he commits a distinct breach of law. This rule, which was laid down by the Privy Council in *Eshugbayi v. Government of Nigeria* [L.R., 1931, C.A., p. 670], was in fact anterior to the Constitution of India and survived after the coming into force of the Constitution by virtue of Article 372 of the Constitution which says that 'all the law in force in the territory of India immediately before the commencement of the Constitution shall continue in force therein until altered or repealed or amended by a competent Legislature or other competent authority'. It should be noted that the above article does not save only the 'laws' but saves the 'law' which means all law established through judicial decisions as well as custom. When *Eshugbayi's* decision was given by the Privy Council, the constituent Act of British India did not contain any declaration of fundamental rights. The principle stated in that case did not emanate from any 'right' but it emanated from the concept of 'liberty' in the Hohfeldian sense which was implicit in any lawful governance.

Hohfeld [1966] distinguished right from liberty, power and immunity, which are often used interchangeably but are different conceptually. Right and duty are correlative concepts. If I have a right against you, you have a duty towards me. Jural opposite of right is no right and jural opposite of duty is no duty. No duty means liberty. I have liberty to do what pleases me because I have no duty not to do it. And no one has a right to prohibit me from doing so. Power means the capacity to create jural relations. It means the capacity to create rights and liabilities. Jural correlative of power is liability. If I have power over you, you have liability towards me. Courts have power to pass judgments which impose liabilities on those subject to their jurisdiction. Parliament has power to make laws. Parliament, however, cannot make a law, which takes away or abridges a fundamental right. This is disability. A minor cannot make a contract. A person cannot sue another for recovery of a debt if the period of limitation has elapsed. This is a disability. Jural opposite of power is disability and jural opposite



of liability is immunity. Trade unions cannot be sued for torts. The President or the Governor shall not be personally liable in respect of any contract or assurance made or executed for the purposes of the Constitution or for the purposes of any enactment relating to the Government of India (Article 299(2), Constitution). This is immunity. Although the word 'right' is often used to describe liberty, power or immunity, Hohfeld explained the specific meaning of each. Liberty as described above is an *a priori* condition of the rule of law. It does not owe its origin to any bill of rights. It exists to the extent that it is not restricted by any law. Anybody who encroaches upon liberty has to show that he has a right to do so. *Eshughayi's* dicta stated above referred to the concept of liberty and not to the concept of right in the Hohfeldian sense.

Admitting that the enforcement of the right given by Article 21 was suspended, did 'liberty' in the Hohfeldian sense not survive after the coming into force of the Constitution by virtue of Article 372 of the Constitution? Was 'liberty' of an individual not anterior to Article 21 of the Constitution? Even courts in colonial India gave protection to liberty by insisting that the Executive must act according to law. Did an Indian citizen not possess liberty which exists in English constitutional law, where supremacy of Parliament is a constitutional axiom? The questions that were posed were whether the detention of persons had been according to law, whether the law authorising the detention was a valid law, whether the Executive had applied its mind or whether it had acted mala fide? The Bench consisting of Chief Justice Ray, and judges Khanna, Beg, Chandrachud and Bhagwati considered these questions which came before them in appeals filed against the decisions of the seven High Courts, namely Allahabad, Bombay, Delhi, Karnataka, Madhya Pradesh, Punjab and Rajasthan, which had rejected the Attorney General Niren De's argument that the petitions be rejected *in limine* (summarily). In the Supreme Court, the Attorney General argued that the Court might grant relief only if the order of detention was bad on the face of it. It would be bad on the face if it was passed by a person not authorised to pass it

or was passed for a purpose outside those mentioned in the MISA. It was held by majority of four against one that the actions of the Executive could not be examined by any court. Justice Khanna dissented. It is interesting that barring him, all the other four judges who upheld the government's power became the Chief Justice of India in the course of time. Ray was already the Chief Justice and Beg, Chandrachud and Bhagwati succeeded in the order of seniority. Justice Khanna had to pay the price for his dissenting judgement because he was superseded and a junior judge, Justice Beg, was appointed as Chief Justice upon the retirement of Chief Justice A. N. Ray. The decision in the *Fundamental Rights* case was severely criticised [Seervai, 1978; Baxi, 1980, Pp. 79-120]. Even the judges following the black letter law tradition would not have given such a decision. The black letter law tradition always gave maximum protection to individual liberty through various common law statutory interpretational devices. The English courts have always applied the rule of strict interpretation of statutes where they impinged on individual liberty. Where two interpretations are possible, the courts prefer an interpretation which is favourable to the citizen.

In the *Fundamental Rights* case, the Supreme Court held that the basic principle of the rule of law that a person could not be divested of his liberty unless he had committed any breach of law did not survive the proclamation of emergency. A Court, which only a few months ago had struck down a constitutional amendment as being against the basic structure of the Constitution in the *Prime Minister's Election* case [*Indira Gandhi v. Rajnarayan*, AIR, 1975, SC, p. 2,299], did not consider the argument of the respondents that the above principle of the rule of law, which was part of the basic structure of the Constitution, could not be whittled down through an order of the President issued under Article 359 of the Constitution. If an amendment of the Constitution contrary to the basic structure could be void, why could an order of the President issued under Article 359 of the Constitution not be void if it resulted in the elimination of one of the most basic features of the Constitution, the principle of the

rule of law? It was strange that the argument of fear, which they had accepted in *Kesavanand Bharati* and which had become a reality in the *Prime Minister's Election case*, could not be invoked against the order of the President suspending access to courts for the enforcement of the rule of law. The complaisance of the judges was obvious. Justice Chandrachud, while responding to the argument that unless the presidential order was read down, it might give power to the government to arbitrarily shoot down any person, said [AIR, 1976, SC, Pp. 1,207, 1,349]:

Counsel after counsel expressed the fear that during the emergency, the Executive may whip and strip and starve the detainee and if this be our judgement, even shoot him down. Such misdeeds have not tarnished the record of Free India and I have a diamond-bright, diamond-hard hope that such things will never come to pass.

Another Judge, Justice Beg went even further than Justice Chandrachud in giving a clean chit to the emergency regime. He said [AIR, 1976, SC, p. 1,319]:

Furthermore, we understand that the care and concern bestowed by the State authorities upon the welfare of detainees who are well-housed, well-fed and well-treated, is almost maternal.

While the judges were giving such optimistic picture of the Indian democracy through their judgements, various atrocities were being committed by the emergency regime. In the Kottayam police camp, P. Rajan, an Engineering student, was arrested on February 29, 1976 and was murdered by police torture [Seervai, 1978, p. 1].

#### END OF EMERGENCY AND ELECTIONS

In 1977, Prime Minister Indira Gandhi advised the President to dissolve the Lok Sabha and hold fresh elections. All the non-Congress political parties other than the Communist parties and some regional parties formed a single party called the Janata Party to fight election. The Congress party lost heavily and even Prime Minister Indira

Gandhi was defeated in her own constituency. The Janata Party formed government at the Centre. Since the Janata party was a conglomeration of various parties with contradictory ideologies and interests, such a government was bound to be short-lived and it did end within two years. But even during the short period of its rule, it did the work of amending the Constitution. To weed out those draconian elements which had been inserted by the Constitution (Forty-Second Amendment) Act, 1976.<sup>1</sup> The Constitution (Forty-Fourth Amendment) Act, 1978 made the following changes in respect of the emergency: (1) it substituted the words 'Internal rebellion' in place of the words 'internal disturbance' in Clause (1) of Article 352 to make the promulgation of emergency more difficult (Section 37(a)(i), Constitution (Forty-Fourth Amendment) Act, 1978); (2) in Article 359, which enabled the President to suspend the right to move any court in respect of such of the fundamental rights as might be mentioned by him in his order, the words 'except Articles 20 and 21' were added so as to save the rights given by those Articles from suspension (Section 40, Constitution (Forty-Fourth Amendment) Act, 1978). Article 20 provides the following rights: (a) right not to be punished for an act which was not an offence at the time the act was committed, and the right not to be subjected to a punishment higher than that which was prescribed when the act was committed; (b) right not to be prosecuted and punished for the same offence more than once; and (c) right not to be compelled to give evidence against oneself. Article 21 conferred the right to life and personal liberty.

The Supreme Court had realised that its decision in the *Fundamental Rights case* had cost it the social esteem that it had enjoyed. Although in the *Prime Minister's Election case*, it had managed to satisfy both the constituencies of the government and the people, it had failed to satisfy the people's constituency in the *Fundamental Rights case*.



POST-EMERGENCY ACTIVISM: ATONEMENT FOR THE PAST  
OR SELF LEGITIMISATION FOR THE FUTURE

The post emergency judicial activism grew out of the realisation that the narrow construction of the constitutional provisions such as Article 21 in *A.K. Gopalan v. State of Madras* [AIR, 1950, SC, p. 27] was contradictory to its liberal stance in the basic structure cases [Sathe, 1998, p. 399]. If the Court had envisioned a more positive role for itself in Indian democracy through the basic structure doctrine, it could no longer continue to adopt positivistic role while interpreting other provisions of the Constitution. Although the Indian judiciary, by and large, was considered to be impartial and principled, its jurisprudence had been essentially for the property owners, princes, political leaders and, at the most, civil servants. The political opposition had also not been very sanguine of the Court's jurisprudence. From *Gopalan* to *Shiv Kant Shukla*, the dissenters had not received its sympathetic consideration. The legal positivism of the Court had helped the political establishment against the political dissenters, and the property owners against the pseudo economic reformers. The small man had no stakes in the survival of the Court and the judicial review. He looked to it as a luxury which only the rich could afford. Further, the Court must have realised that in a democracy, high public esteem alone would enable it to withstand the intolerance of a hegemonic Executive. The Court had experienced during the emergency that it could not stand up against the Executive on its own. For the common people, the Court was an elitist institution which supported the political establishment. Its fight with Parliament on right to property appeared to ordinary people to be a mock fight between an elitist court and a majoritarian legislature. The Court is after all a weak institution. Jefferson said that a Court was the weakest organ of the government because it had control neither over the sword nor over the purse. A Court becomes strong only when it identifies itself with the disadvantaged minorities and is seen by them as an independent institution and a bulwark against oppression and tyranny. A Court gains strength only by carving a niche for itself in the minds of the people. A Court must appear to them to be their protector. It must not only be

but must appear to be impartial and principled and capable of achieving results. According to Baxi, 'judicial populism was partly an aspect of post-emergency catharsis. Partly, it was an attempt to refurbish the image of the court tarnished by a few emergency decisions and also an attempt to seek new, historical bases of legitimisation of judicial power' [Baxi, 1985, Pp. 289, 294]. While Baxi calls the entire exercise judicial populism, this writer makes a distinction between judicial populism and judicial activism. Judicial activism of the post-emergency period means liberal interpretation of the constitutional provisions (Articles 21 and 14) and reconceptualisation of the basic rules of the judicial process with a view to making it more accessible and participatory. Such judicial activism came as an attempt to refurbish the image of the Court and to increase its political power *vis-a-vis* other organs of government. These are after all our conjectures because we do not have any evidence to support them. But this is one possible explanation for the Court's post-emergency activism. Judicial populism is an aberration and takes place either when the Court is swayed by euphoria or when it overreaches itself.

The post-emergency judicial activism was probably inspired by the Court's realisation that its elitist social image would not make it strong enough to withstand the future onslaught of a powerful political establishment. Therefore, consciously or unconsciously, the Court moved in the direction of getting closer to the people. I would not share Baxi's optimism that the Court for the first time became the Court for the Indians [Baxi, 1985, p. 289], because even now the Court continues to be inaccessible to a large number of Indians and justice continues to be elusive to many because of its delays, expensiveness and formalism. But in relative terms, the Court became much more accessible and its doctrinal law became much more people-oriented. For this it adopted two strategies: (i) it reinterpreted the provisions of the fundamental rights in a more liberal manner so as to maximise the rights of the people and, particularly, of the disadvantaged sections of society, and (ii) it facilitated access to the courts by relaxing its technical rules of *locus*

*standi*, entertaining letter petitions or acting *suo moto* and developing a public law pro-active technology for the enforcement of human rights.

#### ARTICLE 21 - LIFE AND LIBERTY AND DUE PROCESS OF LAW

Article 21 of the Constitution was bound to be the first on its agenda because its restrictive interpretation in *Gopalan* [AIR, 1950, SC, P. 27] and its total demise in *Shukla* [AIR, 1976, SC, P. 1,207] had made the important fundamental right to life and liberty entirely dependent on the sweet will of the parliamentary majority. We saw earlier [Sathe, 1998, p. 399] that the Constituent Assembly had purposely rejected the expression 'due process of law', which had been the source of judicial activism in the United States and had adopted a more specific expression 'procedure established by law'. The Supreme Court of India had interpreted those words very narrowly in *Gopalan*.

Article 21 of the Constitution says that 'no person shall be deprived of his life or personal liberty except according to procedure established by law'. In *Gopalan*, the Supreme Court held that the words 'personal liberty' meant only freedom from arbitrary arrest and the words 'procedure established by law' meant such procedure as was prescribed by any statute. Article 19 which guaranteed seven fundamental rights included the right to move freely within the territory of India (Article 19(1)(d)). The State can impose reasonable restrictions upon that right 'in the interests of the general public or for the protection of the interests of the Scheduled Tribes'. It was argued that where a person was detained under a law of preventive detention, his right to move within the territory of India guaranteed by Article 19(1)(d) was also restricted and, therefore, the State should prove that the law of preventive detention was a reasonable restriction upon such freedom in the interests of the general public as was required by Clause (2) of Article 19. However, the Court (Justice Fazl Ali, dissenting) held that the rights under Article 19 were available only to a person who was free. If a person was arrested not for making a speech or holding an assembly or forming an association or for entering a territory, his arrest had to be according to law and the

validity of such arrest or detention could be examined only with reference to his right to personal liberty guaranteed by Article 21 and not with reference to any of the rights guaranteed by Article 19. The Court made a distinction between direct restrictions on any of the seven rights guaranteed by Article 19 and indirect restrictions on those rights consequent upon his detention. Detention for preventing a person from exercising any of the freedoms guaranteed by Article 19(1), was a direct restriction on that freedom but the detention for preventing him from causing breach of public order or subverting the security of the State, caused indirect restriction on such freedom. For example, if a person is detained because he was held guilty of theft or murder, the law authorising his detention (Indian Penal Code (IPC)) need not be examined from the standpoint of Article 19 but, if he is detained for committing sedition or obscenity, his detention will have to be valid under Article 19 also.<sup>2</sup> In the first case, restriction on the freedoms guaranteed by Article 19 is the consequence of the denial of liberty but in the second case, denial of freedoms is the reason for the denial of liberty.

The Court held that Articles 19 and 21 had to be read as mutually exclusive. Similar rule of interpretation prevailed in the case of the right to property guaranteed by Article 31 and the right to acquire, hold and dispose of property given by Article 19(1)(f). Article 31 said that no one shall be deprived of his property except by authority of law. And Article 19(1)(f) guaranteed the right to acquire, hold and dispose of property. The latter right was subject to the State's power to impose reasonable restrictions in the interest of the general public or for the protection of the interests of the Scheduled Tribes. The Court had held that where a person was deprived of his property, the right to acquire, hold and dispose of property was not attracted because that right belonged only to a person who had property. Total deprivation would be governed only by Article 31 whereas restrictions on acquiring, holding and disposing of property were governed by Article 19. The right to hold and dispose of property was available only to a person who had property. If his property was taken away, he could invoke only Article 31.



On the contrary, if he had property but its use was restricted, he could invoke Article 19. Since the Court had held that 'deprivation' would attract the liability to pay compensation, it thought that the protection of Article 19 was not necessary. But when the Constitution was amended in 1955 to restrict the liability to pay compensation only to cases of acquisition of property by the State and not to cases of deprivation of property other than by acquisition of property by the State and to provide that the adequacy of compensation would not be determined by Court, the Court fell back upon Article 19 to lend greater protection to the right to property. In *K.K. Kochuni v. State of Madras* [AIR, 1960, SC, p. 1,080], it was held that where a person was deprived of his property either by acquisition of property by the State or otherwise, the law which authorised such acquisition or deprivation must be a reasonable restriction on the right to hold property given by Article 19(1)(f). Incidentally, Article 19(1)(f) was deleted from the Constitution by the Constitution (Forty-Fourth Amendment) Act, 1978.<sup>3</sup>

The above interpretation of inter-relation between Article 31 and Article 19(1)(f) of the Constitution was not extended to the relationship between Article 21 and Article 19(1)(d). In case of personal liberty and the freedoms guaranteed by Article 19, the view held in *Gopalan* continued to operate. In *Kharak Singh v. Uttar Pradesh* [AIR, 1963, SC, p. 1,295], the Supreme Court gave wider meaning to the words 'personal liberty' so as to include within its fold the right to privacy also. The majority of judges held that the words 'personal liberty' in Article 21 could not be confined to its negative meaning as being mere protection from arbitrary arrest, but extended to include all aspects of liberty other than those covered by Article 19. It was on the question of exclusion of freedoms guaranteed by Article 19 from the scope of 'personal Liberty' that the minority of judges disagreed. In another case [*Satwant Singh v. Assistant Passport Officer*, AIR, 1967, SC, p. 1,836], Chief Justice Subba Rao held that the right to personal liberty included the right to go abroad and held that certain provisions of the Passport Act were unconstitutional and void. The objection of the Court was to the

non-existence of a law, and the procedure for regulating the grant or denial of passports. The Court said that to go abroad was a fundamental right as being part of the personal liberty and it could be restricted or regulated by a law. It was in response to this decision that Parliament enacted the Passport Act, 1967 laying down who can obtain a passport and when it can be refused and the procedure for applying for a passport.

A major breakthrough came in *Maneka Gandhi v. Union of India* [AIR, 1978, SC, p. 597]. In that case, Maneka Gandhi's passport had been impounded and she challenged the validity on the ground that that action violated her personal liberty. No hearing had been given to her as to why her passport should not be impounded. The Supreme Court not only gave wider meaning to the words 'personal liberty' but also brought in the concept of procedural due process under the words 'procedure established by law'. While giving wider meaning to the words 'personal liberty', the Court held that the earlier view that 'personal liberty' included all attributes of liberty, except those mentioned in Article 19, stood rejected. Where a law restricted personal liberty, a Court would also examine whether such restriction on personal liberty also imposed restrictions on any of the rights given by Article 19. The Court held that the right to go abroad was part of 'personal liberty'. 'Personal liberty' included 'a variety of rights which go to constitute the personal liberty of man' [AIR, 1978, SC, p. 622, para 54] in addition to those mentioned in Article 19.

The Court held that impounding of her passport without giving her a hearing was not according to procedure established by law. The procedure that a law must provide must be a just and fair procedure. The rules of natural justice, which is a term used for a fair hearing, are the essential requisites of fair procedure. These rules are: (a) no one should be a judge in his own cause; and (b) no one should be condemned unheard. The person who decides must be an unbiased person, he should give a clear notice of what he intends to do and he must give a reasonable opportunity to the person against whom he intends to act of

presenting his defence as to why such an action should not be taken. The words 'procedure established by law' must include such procedure. In the instant case, the Court was called upon to decide whether Maneka Gandhi was entitled to a hearing before the action of impounding of her passport was taken. The Court conceded that in some situations where urgent action was needed, a prior hearing might not be feasible. In such exceptional situations, if a prior hearing was not given, the authorities must give a post-decisional hearing. On the assurance of the Attorney General that a post-decisional hearing would be given soon, the majority, barring Justice Beg, held that the government's action need not be struck down. Justice Beg held that the government's action was unconstitutional and void.

In *Maneka Gandhi*, the Court clearly overruled *Gopalan* on the following issues: (a) The law authorising deprivation of personal liberty would have to be valid not only under Article 21 but also under Article 19; (b) The words 'life' and 'personal liberty' had wider meanings which would be discovered from time to time. They were open-textured expressions; and (c) the words 'procedure' established by law' meant not the procedure prescribed by law but such procedures as had been considered to be just and fair in civilised countries.

The most significant aspect of *Maneka Gandhi* was that the Court laid down a seminal principle of constitutional interpretation. There cannot be a mere textual construction of the words of the Constitution. Those words are pregnant with meanings which unfold when situations arise. For example, the Constitution mentions the right to freedom of speech and expression but does not mention the right to freedom of the press. The Supreme Court has, however, held that the right to freedom of speech includes the right to freedom of the press [*Ramesh Thappar v. State of Madras*, AIR, 1950, SC, p. 124]. The Court held that the right to freedom of speech includes the right to receive information also [*Bennet Coleman v. Union of India*, AIR, 1973, SC, p. 106; *Secretary, Ministry of Information and Broadcasting v. Cricket Association of Bengal*, SCC, 1995, Vol.

2, p. 161]. This writer has submitted elsewhere that the right to receive information is only partly covered by the right to freedom of speech because my right to receive information does not obligate the other person to give me information [Sathe, 1993, Pp. 201, 221-22]. In my opinion, the right to know is covered also by the right to personal liberty and by the right to procedure established by law guaranteed by Article 21 [Sathe, 1991, Pp. 47-50].

The constitutional expressions are open-textured and it is for the Review Court to develop newer nuances in the context of emerging situations. The Court would read the Constitution not merely as a statute but as an organic law of the nation. In *Francis Coralie Mullin v. Administrator, Union Territory of Delhi*, Justice Bhagwati said [SCC, 1981, Vol. I, Pp. 608, 618]:

This principle of interpretation which means that a constitutional provision must be construed, not in a narrow and constricted sense, but in a wide and liberal manner so as to anticipate and take account of changing conditions and purposes so that the constitutional provision does not get atrophied or fossilized but remains flexible enough to meet the newly emerging problems and challenges, applies with greater force in relation to a fundamental right enacted by the Constitution.

#### RIGHT TO LIFE

The word 'life' on Article 21 had almost remained neglected till then. In *Francis Coralie Mullin*, Justice Bhagwati said [SCC, 1981, Vol. I, Pp. 608]:

The fundamental right to life which is the most precious human right and which forms the arc of all other rights must therefore be interpreted in a broad and expansive spirit so as to invest it with significance and vitality which may endure for years to come and enhance the dignity of the individual and the worth of the human person.

#### Death Sentence: Its Constitutionality

The constitutionality of death sentence came to be questioned in the context of the right to life. The International Covenant on Civil and Political



Rights, to which India is a signatory, has recommended that death sentence should be abolished and in countries where it had not been abolished, it might be imposed only for the most serious crimes.<sup>4</sup> The Law Commission of India had opined against its total abolition [Law Commission of India, 1967]. The Supreme Court held by majority, Justice Bhagwati dissenting, in *Bachan Singh v. Punjab* [AIR, 1980, SC, P. 898] that death sentence would not be constitutionally invalid if given in the rarest of rare cases [See Blackshield, 1979, p. 137]. The Court held that Section 303 of the Indian Penal Code was invalid because it prescribed capital punishment for the offence of murder committed by a person under sentence of life imprisonment. Unlike Section 302 of the IPC, which provides an option of death or life imprisonment as punishment for the offence of murder, Section 303 provides only one punishment of death and that, according to the Court, made the right of the accused given by Section 235(2) of the Code of Criminal Procedure to be heard on the question of the sentence meaningless [*Mithu v. State of Punjab*, AIR, 1983, SC, p. 473]. So the Court will decide whether an offence for which death sentence is prescribed falls in the category of 'the rarest of rare cases'. Since all the cases pertaining to an offence cannot fall within the category of 'rarest of rare cases', the legislature should give discretion to the courts to decide whether in a particular case death sentence should be given or not. For example, suppose Parliament prescribes death sentence for the offence of rape, as such talk is going on at present. The Legislature cannot prescribe death sentence as the only sentence for the offence of rape. It may prescribe death sentence as one of the possible sentences and leave it to the court to decide which sentence should be given in a particular case. It cannot say that all persons guilty of rape must be punished by death but it can say that persons guilty of rape might be punished by death. The court will decide whether such a case of rape falls within the category of the rarest of rare cases.

The question as to how death sentence should be executed was dealt with in another case because, if a person has right to live with dignity, such right must exist even in the execution of the death sentence. If his death is to come after undergoing physical torture, it would negate his right to live with dignity. The Constitution of the United States says that cruel and unusual punishment shall not be inflicted (Eighth Amendment, U.S. Constitution). The Constitution of India does not contain such a provision. The Supreme Court, however, has imported the prohibition against cruel and unusual punishment through liberal interpretation of the words 'procedure established by law'. It was held that death by hanging till death by rope did not violate the procedure established by law [*Deena v. Union of India*, AIR, 1983, SC, p. 1,155]. It was argued that unless on the face of it, the method for executing the death sentence was revolting to the conscience, the courts must surrender their discretion to the legislative judgement. It was further contended that matters of policy were for the legislature to consider and, therefore, by what method or methods the death sentence should be executed was for the legislature to decide. Chief justice Chandrachud responding to that argument said [*Deena v. Union of India*, AIR, 1983, SC, p. 1,173]:

But the function of the legislature ends with providing what it considers to be the best method of executing the death sentence. It is for the courts to decide upon the constitutionality of the method prescribed by the legislature for implementing or executing a sentence.

#### *Right Not to Live*

In *P. Rathinam v. India* [SCC, 1994, Vol. 3, p. 394], the question was raised regarding the validity of Section 309 of the IPC, which punishes attempt to commit suicide. The Supreme Court held that the section was unconstitutional and void. In the Court's opinion, which concurred with the view held earlier by the Bombay High Court [*Maruti Sripati v. State of Maharashtra*, Cr. L.J. 1987, p. 743], the right to live included the right not to live. The Court drew from the analogy that since the right to freedom of speech

included the right not to speak or the right to freedom of association included the right not to associate, the right to live must include the right not to live. It is submitted that while the Constitution guarantees right to freedom of speech, the so called right not to speak is not a right but is a 'liberty' in the Hohfeldian sense. The right not to speak is given by Article 20(3) of the Constitution which says that 'no person accused of any offence shall be compelled to be a witness against himself'. Here the right not to speak, vested in an accused criminal, is a jural opposite of the right to speak. But an accused has liberty to speak, which means that if he speaks, his speech can be used in evidence against him. Such liberty of the accused has a correlative of no right on the part of the State to compel him to speak or not to speak. On the other hand, a person has a liability to speak when he is required to file his income tax returns. This is not liberty in the sense in which an accused has liberty to speak. Similarly, the right to association does not include the right not to associate but there is liberty not to associate. 'Liberties' do not emanate from the rights but exist independently by virtue of the rule of law which presupposes that they cannot be taken away unless there is a specific legal provision enabling the State to do so. In our view, the liberty not to live must be recognised not as a concomitant of the right to live but as concomitant of the right to personal liberty. If a person merely stops medical treatment such as saline or oxygen or stops taking food, should the law interfere with his liberty? *Rathinam* had rightly conceded such liberty of a person and had held invalid the legal interference with such liberty. There are certain aspects of liberty which must remain immune from legal interference. There are other aspects of liberty which can be regulated by law and the Court will decide whether such regulation is valid.

In a later case [*Gian Kaur v. Punjab*, AIR, 1996, SC, Pp. 946, 1,257], the Supreme Court, however, overruled its earlier decision and held that Section 309 of the IPC was not unconstitutional and void as being violative of the right to life. Justice J. S. Verma on behalf of five judges held that the right to live did not include the right to die.

Perhaps the Court's decision might have been influenced by the fact that the validity of Section 306 of the IPC, which punishes abetment to suicide had been challenged. In view of the facts that dowry deaths often took place under the guise of suicide or custodial deaths were many a times disguised as suicides, the Court needed to meet the argument that if right to die was a fundamental right, abetment of suicide was an act which facilitated the exercise of such fundamental right and, therefore, could not be punished. If attempt to commit suicide is not an offence, how will abetment to commit suicide be an offence? But abetment of suicide itself could be made punishable without making attempt to commit suicide punishable subject to exceptions. Cases of mercy killing will have to be dealt with separately but the pre-condition for that will be the recognition of death as a relief from life in torture. We have before us the pathetic story of a Bombay nurse, Aruna Shanbaug who was raped and suffered a brain damage as a result of which she has been living a vegetative existence for last twenty five years [Virani, 1998]. Euthanasia will have to be treated differently because it is an exercise of liberty to die. Justice Verma was not oblivious to such issues. He said [*Gian Kaur v. Punjab*, AIR, 1996, SC, Pp. 946, 1,263]:

A question may arise, in the context of a dying man, who is terminally ill or in a persistent vegetative state that he may be permitted to terminate it by a premature extinction of his life in those circumstances. This category of cases may fall within the ambit of the 'right to die' with dignity as a part of right to live with dignity, when death due to termination of natural life is certain and imminent and the process of natural death has commenced. These are not cases of extinguishing life but only of accelerating conclusion of the process of natural death which has already commenced. ... (E)ven in such cases to permit physician assisted termination of life is inconclusive.

The judge opined that even such termination of life could not be permitted under Article 21. But if the right to die is not part of the right to live but is liberty to die in the Hohfeldian sense, the Legislature can decide whether and how far such

liberty should be protected. It will essentially be a subject for legislative action because various alternatives of policy will have to be considered and various safeguards against abuse of such liberty will have to be incorporated into the law.

#### *Right to Life as Canvass for Various Human Rights*

The right to life became a canvass for various other human rights such as right to privacy [*Kharak Singh v. Uttar Pradesh*, AIR, 1963, SC, P. 1,295; *Govind v. Madhya Pradesh*, AIR, 1975, SC, p. 1,378; *Neera Mathur v. Life Insurance Corporation*, AIR, 1992, SC, p. 392], right to development [*Ratlam Municipality v. Verdhichand*, AIR, 1980, SC, p. 1,622; *Banwasi Sewa Ashram v. Uttar Pradesh*, AIR, 1987, SC, p. 374], right to gender justice [Sathe, 1993], right to fresh water or air [*M.C. Mehta v. India*, AIR, 1988, SC, P. 1,037], right to protection against environmental degradation [*M/s A.R.C. Cement Ltd. v. Uttar Pradesh*, SCC, 1993, Supp. Vol. 1, p. 57; *Tarun Bharat Sangh v. India*, SCC, 1993, Supp. Vol. 1, p. 4], right to food and clothing [*Shantistar Builders v. Narayan K. Totame*, SCC, 1990, Vol. 1 p. 520], right to shelter [*Olga Tellis v. Bombay Municipal Corporation*, AIR, 1986, SC, p. 180], right to health [*CERC v. India*, SCC, 1995, Vol. 3, p. 42; *Vincent v. India*, AIR, 1987, SC, p. 990] and right to education [*Mohini Jain v. Karnataka*, AIR, 1992, SC, p. 1,858; Sathe, 1992, Pp. 9, 13; *Unnikrishnan v. Andhra Pradesh*, SCC, 1993, Vol. 1, p. 645; Sathe, 1993, p. 201]. While the Court's creativity is laudable, the question that arises is about the practicability of such discourses. *Bijaylaxmi Tripathi v. Managing Committee, W. W. Hostel* [AIR, 1992, Ori, p. 242; Sathe, 1992, Pp. 9, 22] decided by the Orissa High Court shows how activism of the Supreme Court can be misunderstood at the lower levels. There was a hostel for working women managed by a society registered under the Societies Registration Act. The petitioners were inmates of the hostel for three years. The hostel authorities found that those women did not comply with the disciplinary conditions of the hostel and were therefore asked to leave. The petitioners approached the High Court saying that their right to livelihood

which was part of their right to live with dignity had been violated. The petition ought to have been rejected on the ground that the respondents were a society and not covered by the word 'State' in Article 12 against which the fundamental rights could be invoked. Further, there could not be any fundamental right to live in a hostel. The hostel was a facility for working women but it could never be considered to be a concomitant of the right to livelihood. It would also be questionable whether the right to live guaranteed by Article 21 could be stretched to comprehend the right to livelihood. It is, doubtless, the moral duty of the State to see that every one gets enough for his livelihood. But it can become an enforceable fundamental right only when the state of the economy is such as to sustain the financial burden. The majority, however, upheld the claim of the petitioners that they had right to live in the hostel because their livelihood depended upon their living in the hostel. It was held by the majority that even though the Mahila Samiti was a private society registered under the Societies Registration Act, since it undertook to provide housing to the working women, and such an obligation was of public nature, it was amenable to the writ jurisdiction of the Court. Justice K. C. Jagadeb Roy dissented and held that Article 21 was totally inapplicable. Both, the majority and the minority of judges, agreed in upholding the action of the Mahila Samiti on merit because, according to the majority, the right had been denied as per the procedure established by law and, according to the minority, there was no right at all. To hold that one's fundamental right to life included the right to live in a hostel was a travesty of the fundamental right.

#### *Judicial Populism*

Judicial process is essentially efficient in preventing encroachments on rights or liberties. But can it create new rights which require positive action in terms of allocation of resources? It is doubtless true that every person should be entitled to fresh water or should be able to breathe fresh air. But where water is so highly polluted and most of the cities of India are suffering from air pollution, can a normative judicial declaration



that those rights are part of the guaranteed fundamental right help in mitigating the suffering of the people who are in fact denied those rights? It is submitted that the judicial process is suited essentially for the enforcement of the first generation human rights which consisted of don'ts against the government. If a person is illegally arrested, a Court can set him free by issuing a writ of *habeas corpus*. If a person's property is taken without the authority of law, a Court can order prohibition of such an act. But can a Court by its order provide fresh potable water or fresh air? Can a Court by its order say that every one must have a shelter? When a court tries to do so, it has to enter into contradictions. In *Olga Tellis v. Bombay Municipal Corporation* [AIR, 1986, SC, p. 180], the Court admitted at the abstract level that every one had a right to shelter as part of his right to live. But the Court was faced with persons who were living on footpaths and they had to be removed from there in order to clear the foot path for the pedestrians. Therefore, the Court said that the Bombay Municipal Corporation could evict them by issuing a notice and following the procedure laid down under the Bombay Municipal Corporation Act. So the right to shelter, as a fundamental right turned out to be a platitude when it could be dispensed with by the Corporation after following the proper procedure. In *Mohini Jain v. Karnataka* [AIR, 1992, SC, p. 1,858], the Supreme Court held that right to education was included within the right to life. The Court realising the impracticability of such a proposition, tried to narrow down its dictum in *Unnikrishnan v. Andhra Pradesh* [SCC, 1993, Vol. 1, p. 645] where it said that the right to live included the right to primary education. Here again, we find that the Court has verged on populism. The Constitution in one of the directive principles of state policy specifically enjoins upon the State to provide within a period of ten years free and compulsory primary education for all children below the age of 14 years (Article 45, Constitution). It is not for the Court to convert a directive principle of state policy into a fundamental right. Moreover, even if it does so, it will merely amount to conversion of a non-enforceable directive principle into a non-enforceable fundamental right. Where literacy

rate has been around 50 per cent to say that all Indian people have a fundamental right to primary education is nothing but an exercise in romanticism. These are second generation human rights, which consist of social and economic rights of positive nature and have to be backed up by political action. The rights such as right to education or right to livelihood can be a reality only when the State allocates resources for providing education or jobs to people. This will depend upon the economic policies that the State pursues. Justice P. B. Sawant speaking in *Delhi Development Horticulture Employees' Union v. Delhi Administration* [AIR, 1992, SC, Pp. 789, 795] observed:

This country has so far not found it feasible to incorporate the right to livelihood as a fundamental right in the Constitution. This is because the country has so far not attained the capacity to guarantee it and not because it considers it any the less fundamental to life. Advisedly, therefore, it has been placed in the chapter on Directive Principles.

After the Universal Declaration of Human Rights (UDHR), which for the first time included social and economic rights (Articles 22 to 28, UDHR), efforts were made to translate them into enforceable rights. Two separate covenants, International Covenant on Civil and Political Rights (ICCPR) and International Covenant on Social and Economic Rights (ICESR) were adopted by 1966. It took such a long time because the world community was divided on the priority to be given to either. The Western countries felt that the first generation human rights, which were civil liberties ought to be guaranteed first but the Communist/ Socialist countries insisted that without social and economic rights, the civil liberties were mere platitude. The Western countries on the other hand feared that the guarantees of social and economic rights might legitimise State intervention in social and economic spheres to the extent of bringing in totalitarianism. Ultimately, it was decided to divide the rights into legal rights and programme rights. The legal rights were those which had already been incorporated in the constitutions of

various countries and which could be enforced by courts. The programme rights were those which needed to be translated into reality by the respective states. In the Indian Constitution, the makers of the Constitution seem to have visualised such an arrangement when they provided for enforceable rights under the heading 'Fundamental Rights' and the programme rights under the heading 'the Directive Principles of State Policy'. The Constitution specifically states that the directive principles, though not enforceable by courts, would nevertheless be fundamental in the governance of the country (Article 37, Constitution).

It could be said that mere judicial declaration of such rights creates illusion in the minds of the people that those rights are already in existence. That might diminish their will to fight for them through political action. The government also is happy that the judiciary is doing every thing for it and it does not have to do anything. Such negative fallout may, however, be partially mitigated by the desire for those rights which judicial declaration may create, and the political action for securing them which may be propelled by such desire. The relationship between judicial activism and political action is quite complex. Political action may use judicial intervention for legitimising its claims and judicial discourse may spur political action for securing certain claims. Each one catalyses the other and also complements the other.

#### PERSONAL LIBERTY

The words 'personal liberty' acquired new dimension where prisoners' rights were debated. Are prisoners entitled to any rights? Are they denuded of all the fundamental rights? Earlier, the Court had held that a prisoner did not lose his right to freedom of speech during his incarceration [*Maharashtra v. Prabhakar*, AIR, 1966, SC, p. 424] In *Charles Shobraj* [*Charles Shobraj v. Superintendent, Central Jail*, AIR, 1978, SC, p. 1,514] and *Sunil Batra*, [*Sunil Batra v. Delhi Administration* AIR, 1978, SC, p. 1,675; AIR, 1980, SC, p. 1,579] it was held that a prisoner was not denuded of his fundamental rights such as right to equality or right to life or personal liberty

beyond what had been taken away by the nature of the imprisonment itself. The Court held that even a prisoner was entitled to be treated according to the prison rules and even the prison rules could not be violative of his fundamental rights such as right to equality or right to life or personal liberty. A prisoner certainly could not be subjected to inhuman torture during his imprisonment. He was also entitled to other rights such as freedom of religion. The exercise of the fundamental rights would, of course, be restricted in so far as he is under detention.

The right to personal liberty has also included various women's rights such as right not to be asked information about menstrual cycles or pregnancies for the applicants for jobs in the public sector [*Neera Mathur v. Life Insurance Corporation*, AIR, 1992, SC, p. 392], or the right to the sanctity of her body (rape was held to be not only an offence under criminal law but as an onslaught on personal liberty) [*Bodhisatwa Goutam v. Subhra Chakraborty*, SCC, 1996, Vol. 1, p. 490; Sathe, 1999, Forthcoming], or presumption of chastity and the right not to subject the child to paternity test unless *prima facie* case of no access to the husband of the mother during the period of conception was proved [*Goutam Kundu v. West Bengal*, SCC, 1993, Vol. 3, p. 418].

#### Procedure Established by Law

The words 'procedure established by law' were also construed liberally to include within it all those essential aspects of procedure which constitute the due process of law. True, the makers of the Constitution had purposely avoided the use of that expression because they were apprehensive of the import of the substantive due process concept into the Constitution. But procedural due process provides the essentials of the rule of law. In *Gopalan*, the court had held that the procedure established by law meant the procedure prescribed by the enacted law. Between the two meanings of the word 'law', namely 'lex' (enacted law) and 'jus' (justice), the Court had chosen the former and rejected the latter. A person's liberty could be taken away by law and by such procedure as was provided by the law. A

Court had no power to ask whether the law or the procedure was fair or just. But now the Court held that the procedure to be provided by the law must contain the essentials of fair procedure which meant the principles of natural justice. The word 'established' did not mean 'prescribed' but meant 'institutionalised'. Such institutionalisation takes place through a long tradition and practice. The Court, therefore, acquired the power to decide whether proper procedure was prescribed by the Legislature and followed by the Executive.

The Court held that a person was entitled to a speedier trial and therefore long detention of a person as an under-trial prisoner was violative of the 'procedure established by law' [*Hussainara Khatoon v. Bihar*, AIR, 1979, SC, p. 1,360]. A person had right to speedy investigation and trial. However, in each case the Court will see whether the time taken for investigation could be considered as delay. On facts it may be held that it was not delay [*Raghubir Singh v. Bihar*, AIR, 1987, SC, p. 149]. Sometimes delay may be caused by the accused himself. In such a case, he will not be able to say that due to delay the prosecution should be quashed; because that would amount to helping him to evade the law [*Maharashtra v. C.P. Shah*, AIR, 1981, SC, p. 1,675].

Although the Constitution says that every arrested person is entitled to consult a lawyer of his choice (Article 22(1), Constitution), earlier the Court had held that that was a mere permissive provision and did not necessarily cast a burden on the State to provide free legal aid [*Janardan Reddy v. Hyderabad*, AIR, 1951 SC, p. 217; *Prasannan*, 1968, p. 637]. But after the Forty-Second Amendment of the Constitution inserted a clause enjoining upon the State an obligation to provide free legal aid into the Constitution (Article 39-A), the Court held that provision of free legal aid was an essential aspect of the procedure established by law [*Suk Das v. Union Territory*, AIR, 1986, SC, p. 991; *M.H. Hoskot v. Maharashtra*, AIR, 1978, SC, p. 1,548]. In another case, the Court held that hand cuffing of prisoners was

violative of the procedure established by law [*Prem Shankar Shukla v. Delhi Administration*, AIR, 1980, SC, p. 1,535].

The three expressions in Article 21, namely 'life', 'personal liberty' and 'procedure established by law', have thus been construed by the Supreme Court in an expansive manner so as to afford to the individual the due process of law as understood in the United States. Although that clause was purposely avoided by the makers of the Constitution, yet it has been brought into the Constitution through judicial interpretation. The activism of the Supreme Court of India was similar to the activism of the United States Supreme Court during the fifties and the sixties in cases, like *Mapp v. Ohio* [U.S. 1949, Vol. 328, p. 25] and *Gideon v. Wainwright* [U.S. 1963, Vol. 372, p. 335]. In *Mapp*, the United States Supreme Court had held that evidence collected through illegal searches could not be admissible as evidence, and in *Gideon*, it was held that without legal aid to the accused no conviction in a criminal case could be upheld.

#### ORIGINAL UNDERSTANDING AND CONSTITUTIONAL INTERPRETATION

The Court has doubtless departed from the original understanding of the Constituent Assembly. But a constitutional court can never be bound down by the original understanding of the makers of the Constitution. In the United States, a great debate has taken place whether the decision of the Supreme Court of the United States mandating integrated schools for white and black children in *Brown v. Board of Education* [U.S. 1954, Vol. 360, p. 201] was consistent with the original understanding of those who enacted the Fourteenth Amendment. Justice Holmes of the United States Supreme Court had expressed his thoughts on this subject 34 years before the above decision. He had said:

When we are dealing with words that also are a constituent act, like the Constitution of the United States, we must realise that they have called into life a being, the development of which could not have been foreseen completely by the most gifted of its begetters. It was enough for them to realise or to hope that they had

created an organism; it has taken a century and has cost their successors much sweat and blood to prove that they created a nation. The case before us must be considered in the light of our whole experience and not merely in that of what was said a hundred years ago [*Missouri v. Holland*, U.S. 1920, Vol. 416, p. 433].

ARTICLE 21 AND RIGHT TO HONEST  
AND EFFICIENT GOVERNMENT

Article 21 has, therefore, become a main site for the creation of new rights and entitlements. The kind of questions, such as whether death sentence was constitutionally valid or whether a person had liberty to die or whether personal liberty included the right to privacy or whether freedom of speech included the right to information, were legitimate concerns of judicial activism because the Court was called upon to articulate the newer nuances of the rights guaranteed by the Constitution. Similarly, the rights of the prisoners to humane treatment or of an under-trial prisoner to a speedy trial or the right of an accused criminal to legal aid also emanated from the fundamental rights guaranteed by Articles 21 and 22 and the directive principles of state policy contained in Article 39-A of the Constitution. Even in regard to such rights, the Court can merely declare them as part of the normative order but cannot articulate them in reality, which is evident from the fact that neither the right to speedy trial nor the right to legal aid has been acquired in reality by a large number of people. The Court, however, seems to have been enthused by the euphoria which its earlier activism generated and took upon itself the impossible task of setting right the distortions and perversions that had set in the working of the Constitution. From the cases that we are discussing hereafter, this fact will become quite evident.

SYSTEMIC MALFUNCTIONING: ACTIVISM  
ENTERS POLITICAL THICKET

*Wadhwa Case* [*D.C. Wadhwa v. State of Bihar*, AIR, 1987, SC, p. 579]

Under Articles 123 and 213 of the Constitution, the President and the Governor, respectively, can issue an ordinance when neither of the Houses of Parliament or of the state legislature, as the case

may be, is in session if he is satisfied that circumstances exist which render it necessary for him to take immediate action. Such an ordinance remains in force only until the expiration of six weeks from the reassembly of Parliament or state legislature or until a resolution approving it is passed by both the Houses of Parliament or state legislature after its reassembly. An ordinance is required to be laid before both the Houses of Parliament/state legislature and government can get an Act containing the provisions of the ordinance passed by Parliament or state legislature. In Bihar, D. C. Wadhwa of the Gokhale Institute of Politics and Economics, Pune found that ordinances were issued and allowed to expire upon completion of the period of six weeks from the reassembly of the Legislature and then again re-promulgated after the session of the Legislature was over. Ordinances, thus, continued for years without having been placed before the legislature. This was clearly a fraud on the Constitution. But how is it that the Court entertained this petition?

Article 32 guarantees the right to move the Supreme Court for the enforcement of any of the fundamental rights. The petitioner moving the Court under Article 32 is required to establish *prima facie* that his fundamental right is likely to be violated. In none of the cases discussed below, this requirement was fulfilled. In the judgement of Justice Bhagwati, we find no mention of the violation of any of the fundamental rights given by Part III of the Constitution. Whose fundamental right did Wadhwa espouse and which fundamental right did he claim? Wadhwa had arrived at the finding about the re-promulgation of the ordinances through his academic studies. He was not a resident of Bihar but was resident of Pune in Maharashtra. Although the matter which Wadhwa brought before the Court was of great importance, it should have been brought before the legislature because such clandestine re-promulgation of ordinances was an affront to the legislature and the legislature alone should have corrected it and reprimanded the government. But no member of the legislature had taken this up. The Supreme Court entertained the matter and gave its decision. Retrospectively we are



trying to rationalise that decision. The only justification for the Court's intervention was that such fraudulent re-promulgation of ordinances was a gross violation of the Constitution. But Article 32 was not meant for providing remedies against any violation of the Constitution. It is specifically provided for being used against the violations of fundamental rights. The Court entertained the petition and declared that such practice of re-promulgation of ordinances was against the letter as well as the spirit of the Constitution. Did it mean that the Court conceded that Wadhwa had a fundamental right that he should be governed according to the Constitution? Where could such a fundamental right be located? It could be said that such government lawlessness ultimately adversely affected the rule of law and the individual's life and liberty would not be secure without the rule of law. The words 'life', 'liberty' and 'procedure established by law' were, thus, given widest interpretation to bring in any violation of the Constitution, howsoever remotely concerned with individual liberty, within the power of the Court given by Article 32 to protect and enforce the fundamental rights. The right to honest and efficient governance has been implied from the right to life and liberty guaranteed by Article 21 of the Constitution. It appears that the Court entertained the matter because Wadhwa had raised an important matter of government lawlessness which would have adversely affected the rule of law and, consequently, the life and liberty of every person. This is how one can rationalise the decision of the Supreme Court in Wadhwa's case. The expansive constructions of the words 'life', 'liberty' and 'procedure established by law' and the consequent assumption of the function of policing the constitutional processes in the interest of honest and efficient governance has enormously increased the responsibility of the Court. Is the Court institutionally viable for undertaking such a heavy responsibility? Should it undertake such responsibility? These questions need to be carefully examined but such an examination has to wait until we map out the entire area of judicial activism.

### *The Judges Case*

In *S.P. Gupta v. India* [AIR, 1982, SC, p. 149], the Court was asked to decide the legality of transfer of judges and also to specify the procedure for the appointment of judges of the High Court and the Supreme Court so as to preserve and strengthen the independence of the judiciary. Since the supersession of the judges in 1973, the question of judicial appointment was agitating the minds of lawyers, judges and civil libertarians. Should the government have an ultimate say in the appointment of judges? Should the government have absolute power to transfer High Court judges from one High Court to another? Since the government was the major litigant, it was felt that such power should not vest in the government alone.

The same question came before the Court again in 1993 at the instance of a lawyers association [*The Supreme Court Advocates on Record Association v. India*, AIR, 1994, SC, p. 268] and recently through a Presidential Reference [*In re Article 143 of the Constitution*, 1998, AIR, 1999, SC, p. 1]. The Supreme Court entertained this matter under Article 32 on petitions by lawyers without asking which of the fundamental rights had been violated. Did the petitioners who were lawyers have fundamental right that judges should not be arbitrarily transferred from one High Court to another? Did the citizens have such a right? The independence of the judiciary is doubtless a condition precedent to the existence of the rule of law and every citizen's life and liberty are secure only when there is rule of law. When the Court entertained this matter and laid down norms for the appointment of judges, it was doing so because those matters pertained to the independence of the judiciary. If the judiciary is not independent, there will be no fundamental rights and there will be no life or liberty or procedure established by law. The Court was, thus, implying that an independent judiciary being the essential requisite of the protection of the fundamental rights, judicial review could go into the questions of transfer and appointment of

the judges. The Court, thereby, recognised the right to an independent judiciary as a concomitant of the right to honest and efficient governance.

It is submitted that this is a far-fetched view of the connection between independence of the judiciary and the enforcement of the fundamental rights. If such a view is to be taken, it could as well be said that democracy is essential for the enforcement of fundamental rights and, therefore, all questions regarding the democratic process are matters concerning the enforcement of fundamental rights. Such an interpretation totally ignores that the Constitution envisages separation of powers and preservation of democracy is as much the concern of the Legislature and the Executive as that of the Judiciary. By the 1993 decision, the Court has vested power of appointment of judges in the collegium of judges consisting of the Chief Justice and two senior judges of the Supreme Court. By its opinion given on reference under Article 143 of the Constitution, the Court widened the collegium to four senior judges of the Supreme Court instead of two such judges. What is the guarantee that independence of the judiciary shall remain safe by vesting the final power of appointment of judges in a collegium of judges? I do not know of any democratic country in which the power of appointing the judges vests in the judiciary itself. The judiciary should be independent but does it have to be completely autonomous in democracy? Should judges not be accountable to some one? Why should the Court arrogate to itself the power to decide how judges should be appointed? Why should Parliament not legislate through a constitutional amendment to lay down more objective procedures for appointment of judges? Judicial activism here amounted to judicial expansionism because the Court has expanded its own powers. Under the guise of interpretation of the Constitution, can the Supreme Court change the basic structure of the Constitution? The basic structure consists of division of powers and functions between the Parliament, the Executive

and the Judiciary. The Court has claimed a power to itself which the basic structure of the Constitution did not envisage.

It seems that the Court has made its forum available against government lawlessness and has allowed a citizen to complain against government lawlessness by invoking its jurisdiction. In the above cases, the Court had to construe the constitutional provisions regarding the appointment of judges (Articles 124 and 217, Constitution) and point out what procedures had to be followed for making such appointments. But in *Sri Kumar Padma Prasad v. India* [SCC, 1992, Vol. 2, p. 428; Jacob, 1992, Pp. 29, 32] the Court was actually required to cancel an appointment of a person as a judge because he did not possess the qualifications prescribed by the Constitution for such appointment. In *All-India Judges Association v. Union of India* [AIR, 1992, SC, p. 165], the Supreme Court issued directions to the government to create an all-India judicial service so as to bring about uniform conditions of service for members of the subordinate judiciary throughout the country. Was the Court competent to ask the government to set up an all-India judicial service? This was a policy question requiring a constitutional amendment. Should the Court tell the Parliament what policy it should adopt? The Court clearly exceeded its authority.

Similarly, when the state governments acted lackadaisically regarding the appointment of district forums in each district as required by the Consumer Protection Act, 1986, the Common Cause, a registered social action organisation approached the Court under Article 32 and obtained directions asking the state governments to appoint district forums, and as to when they could entrust the work of consumer cases to the existing district judge [*Common Cause v. India*, SCC, 1992, Vol. 1, p. 707]. The Consumer Protection Act provides for speedier, inexpensive and informal process of adjudication for the redressal of consumer's grievances. By traditional legal standards, the government had discretion to set up the district forums. But the Court mandated the state governments to set up district

forums in each district because having access to a tribunal for grievance redressal was part of the right to efficient and honest governance. By another petition, the Court was asked to set free all under-trial prisoners against whom cases had been pending since long. The Court gave directions as to which cases should be quashed and how arrears of cases could be reduced [*Common Cause v. India*, AIR, 1996, SC, p. 1,619]. By a subsequent petition, changes in the earlier order were prayed and obtained [*Common Cause v. India*, SCC, 1996, Vol. 6, p. 593]. There has been improvement neither in the appointment of the consumer courts nor in the arrears of cases. If the arrears in the Supreme Court have reduced, it was because of the use of modern technology and better management skills employed by the two Chief Justices, namely, Justice Venkatchalliah and Justice Ahmadi.

How could Wadhwa move the Supreme Court under Article 32 against the practice of re-promulgation of the ordinances in Bihar [*D.C. Wadhwa v. State of Bihar*, AIR, 1987, SC, p. 579; Sathé, 1987 p. 76, p. 104; Wadhwa, 1983]? How could lawyers move the Supreme Court to prevent arbitrary transfers of judges and politicisation of the appointment of judges [*S.P. Gupta v. Union of India*, AIR, 1982, SC, p. 149]? How could the Common Cause, a registered society invite judicial intervention in the arrears of cases in courts [*Common Cause v. India*, AIR, 1996, SC, p. 1,619]? How could Common Cause obtain orders from the Supreme Court to the state governments to appoint consumer district forums in each district [*Common Cause v. India*, SCC, 1992, Vol. 4, p. 33]? In none of these cases, the Court has asked the petitioner the threshold question as to which fundamental right of his had been violated? As long as lawlessness was of the nature of mere non-compliance with the mandatory provisions of the law, it could be taken care of through routine administrative law. But the problems that came to the Court were such as could not have been dealt with under the traditional administrative law. The Court seems to have taken upon itself

the function of correcting the systemic malfunctioning. The Court had to go into what is generally known as the area of political questions.

In recent years, the Court has gone to the extent of suggesting how the Central Bureau of Intelligence (CBI) should be structured [*Vineet Narain v. India*, SCC, 1996, Vol. 2, p. 199; SCC, 1998, Vol. 1, p. 226]. This was also because an independent and efficient CBI was necessary for efficient and honest governance. It may be mentioned that Article 8 of the Universal Declaration of human Rights provides that everyone has the right to an effective remedy by competent national tribunals for acts violating the fundamental rights granted to him by the constitution or law. Sub-clause (3) of Article 2 of the International Covenant on Civil and Political Rights provides that

Each state party to the present Covenant undertakes (a) to ensure that any person whose rights or freedoms as herein recognised are violated shall have an effective remedy, notwithstanding that the violation has been committed by persons acting in an official capacity; (b) to ensure that any person claiming such a remedy shall have his right thereto determined by competent judicial, administrative or legislative authorities, or by any other competent authority provided for by the legal system of the State, and to develop the possibilities of judicial remedy.

Such a remedy, however, must be provided by the Legislature and not by the Court. These are questions of policy which must be left to the Legislature. An interesting feature of judicial activism in India has been the apex Court's reference to international treaties and conventions and their adoption into the Indian constitutional law through activist interpretation of Article 21 of the Constitution. In England, after the joining of the European Convention on Human Rights, the courts have interpreted the laws enacted by British parliament in such a manner as to be consistent with the provisions of the Convention. In India, similar process has been in vogue. The Supreme Court has interpreted the provisions of the Constitution in such a way as to incorporate the provisions of the Conventions or treaties to

which India is a signatory. The most recent example was the judgement of Chief Justice Verma in *Visaka v. Rajasthan* [SCC, 1997, Vol. 6, p. 241] where the Court drew directly from the Convention on Elimination of All Kinds of Discrimination Against Women (CEDAW) for laying down the law against sexual harassment of working women.

#### RIGHT TO EQUALITY - ARTICLE 14

Another site for judicial activism has been Article 14 of the Constitution which guarantees the right to equality before the law and equal protection of law. Equality before the law does not mean mathematical equality. Human beings as well as objects or causes need to be treated differently and such different treatment does not necessarily result in denial of equality before the law. Children, women, backward classes, and the physically handicapped need to be given different as well as preferential treatment. The poor need to be treated differently from the rich. Equality before the law means that equals should be treated equally, but unequals should not be treated equally. Therefore, the doctrine of equality does not prevent the Legislature from classifying people for different treatment. Such classification has to be reasonable. The theory of reasonable classification is that you can treat a group of people differently if (a) that group is distinct from others, and (b) the criteria of choosing such a group is rationally related to the object of the Act. It deals with three questions: (a) Who are treated differently? (b) Why are they treated differently? And (c) what is the different treatment. The theory requires that 'who' and 'why' should be rationally related to each other. In legal language, they should have the nexus.

P.K. Tripathi had subjected the theory of classification to a searching analysis [Tripathi, 1972, Pp. 45-106]. His objection was that the theory did not require to establish a relationship between 'why' and 'what' or 'who' and 'what'. It only required a nexus between 'who' and 'why'. Take for example, the Income Tax Act, which levies income tax according to the income of a person on the principle that higher the income, higher will be the rate of taxation. In this the question

'who is treated differently' is answered as 'those whose income is higher are treated differently'. Why are they treated differently? The answer is that the tax liability varies according to the capacity of a person to pay. Thus 'who' and 'why' are rationally related but the Court seldom asked what was the different treatment and whether it was necessary for achieving the purposes. In this example, a Court would not ask whether persons with the highest income should be charged income tax at the rate of 30 per cent or 40 per cent. That was left to the Legislature. But as we said earlier, suppose the highest income persons are charged at the rate of 100 per cent, could it not be examined whether it amounts to expropriation? Such expropriation could also be violative of the right to equality. It means that the 'what' element has to be rationally related to the 'why' and 'who' elements. A Court should insist that all the three questions are inter-related, and should examine not only whether the criteria for distinguishing a group of people from others (who?) are rationally related to the purpose of different treatment (why?) but also whether so much and the kind of different treatment (what?) is justified to achieve the purpose (why?). The failure to do so results in formal equality at the expense of substantive equality. Tripathi's objection was that 'the nexus test as applied by the Court did not require an examination of the question of quantum of the disparity created by the statute' [Tripathi, 1972, p. 67]

It was only in *Balaji v. Mysore* [AIR, 1963, SC, p. 649] that Justice Gajendragadkar had ignored the nexus formula and held that reservations for weaker sections of society enjoined by Article 15(4) of the Constitution should not exceed 50 per cent of the total number of seats available for distribution because otherwise the right to equality itself would be eclipsed. Article 15(1) says that the State shall not discriminate on the basis of religion, caste, sex or place of birth. Article 15(4) was added by the Constitution (First Amendment) Act, 1951 which says that nothing in that Article or in Clause (2) of Article 29 (which provides that no citizen shall be denied admission to any educational institution maintained by the State or receiving aid out of State funds on the



ground of religion, race, caste, language or any of them) shall prevent the State from making any special provision for the advancement of socially and educationally backward classes of citizens or for the Scheduled Castes and the Scheduled tribes. In this case, the Court was not merely examining the provisions of a statute to decide whether it offended the right to equality. The Court had to construe the two provisions of the Constitution contained in Clause (1) and Clause (4) of Article 15 and further examine the proportion of the protective discrimination for backward classes with the overriding right to equality given by Article 14. Article 15 and 16 are species of Article 14 and have to be in consonance with that Article. *Balaji*, therefore, declared that although caste may be one of the factors used for identifying who is backward, it shall not be the sole criterion. This resulted from the reading of clauses (1) and (4) of Article 15 together. It meant that protective discrimination in favour of the socially and educationally backward classes of people and, particularly, the Scheduled castes and Scheduled tribes shall not be considered as discrimination on the ground of caste, even though caste would be one of the factors for identifying who are backward. Here the Court had to make sure that classification was not made exclusively on any of the grounds forbidden by Article 15(1), namely, religion, caste, sex or place of birth. Further, the Court had to make sure that such special provisions for the backward classes did not make the right to equality guaranteed by Article 14 (the State shall not deny equality before the law and equal protection of law) nugatory. Here the Court was not satisfied by merely examining whether the criteria of classification, namely, social and educational backwardness, was related to the achievement of the objective of advancement of the interests of such backward people, but went into whether so much reservation was not antithetical to the ideal of equality which the Constitution guarantees. The Court did not say that so much reservation was not necessary for achieving the purpose of advancement of the interests of the socially and educationally backward class of people. It said that such protective discrimination must have a proportion to the totality of the opportunities that are available to the people in

general. In other words, the Court applied what is known as the proportionality test for deciding whether so much reservation was desirable against the total perspective of the right to equality. We find that the Court adopted the same approach in *Indra Sawney v. India* [AIR, 1993, SC, p. 477; Sathe, 1993, Pp. 201, 209-20], where the Supreme Court held that reservations should not exceed 50 per cent of the total number of posts and that creamy layers among the backward classes should be excluded from reservation. This decision was given in response to a petition made against the order of the V.P. Singh government to reserve 27 per cent posts in government service for backward classes made on the recommendations of the Mandal Commission.

#### *Arbitrariness as Inequality*

In the post-emergency period, the Court seems to have seized a much greater power under a new doctrine called the doctrine of arbitrariness to weed out substantive inequality. In *E.P. Royappa v. State of Tamil Nadu* [AIR, 1974, SC, p. 555] Justice Bhagwati speaking on behalf of himself, Justice Chandrachud and Justice Krishna Iyer held that an action which was arbitrary was *per se* violative of equality. While explaining this new doctrine in *Ajay Hasia v. Khalid Mujib*, Justice Bhagwati said [AIR, 1981, SC, p. 487]:

It was for the first time in *E.P. Royappa v. State of Tamil Nadu* that this Court laid bare a new dimension of Article 14 and pointed out that that Article has highly activist magnitude and it embodies a guarantee against arbitrariness. Equality is a dynamic concept with many aspects and dimensions and it cannot be cribbed, cabined and confined within traditional and doctrinaire limits.

Seervai has criticised this new doctrine. He says [Seervai, 1991, Vol. 1, p. 437]:

No doubt arbitrary actions ordinarily violate equality; but it is simply not true that whatever violates equality must be arbitrary.

Seervai observes that 'in a liberal democratic Constitution like ours, it would be inappropriate to characterise laws as arbitrary' [Seervai, 1991, Vol. 1, p. 437].

Seervai's objection that not all acts which violate the right to equality can be called arbitrary is unassailable. We, however, do not agree that in a liberal democratic constitution like ours, it would be inappropriate to characterise laws as arbitrary. The Constitution itself has given power to the Courts to decide whether restrictions on any of the rights guaranteed by Article 19 are 'reasonable'. If a Court can declare a law as an unreasonable restriction on a right guaranteed by Article 19, as it did in *State of Madras v. V.G. Row* [AIR, 1952, SC, p. 196] where an arbitrary power to ban an association given to the State was held to be unreasonable, there is no reason why a law cannot be declared to be arbitrary under Article 14. The terms 'unreasonable' and 'arbitrary' have often been used synonymously in law. But certainly, the doctrine of arbitrariness cannot totally replace the doctrine of reasonable classification because there might be situations where a law may not be arbitrary and yet may violate the right to equality. The doctrine of arbitrariness will enable the Court to probe into the substantive equality, which may elude it under the doctrine of reasonable classification. In fact, the test suggested by Tripathi, which requires the Court to examine whether the reason for different treatment and the extent of different treatment (the 'what' element) are inter-related, would have been a much more reliable test for determining the validity of a legislative or administrative action against the right to equality. That test in our opinion would have given greater scope for judicial review without making the outcome of the judicial review as unpredictable as it might become under the test of arbitrariness.

The right to equality often raises important questions in relation to three types of inequalities that exist in Indian society. One is the social inequality produced by the caste system, the second is the gender inequality, which is universal but exists in India with strong roots in religion and tradition, and the third is the economic inequality.

### *Social Inequality*

Social inequality arising out of the caste system has been attacked through provisions for equality and protective discrimination for backward classes. We have already surveyed some cases decided by the Supreme Court on caste based discrimination. In general, the Supreme Court has been most liberal on the question of compensatory discrimination in favour of the backward classes. In this area, the Supreme Court has given unrestrained support to the policy of protective discrimination in favour of the backward classes. All the decisions given by the Supreme Court on protective discrimination for backward classes, barring the one in *Champakam Dorairajan* [*State of Madras v. Champakam Dorairajan*, AIR, 1951, SC, p. 226] have gone in favour of the reservations. This is really astonishing in view of the composition of the Court which has been predominantly of higher caste and class [Gadbois, 1968, 1969, p. 317]. Even gender has entered only recently in the composition of the Court.<sup>5</sup>

### *Gender Equality*

On gender, the Supreme Court adopted very formalistic approach in the early cases. In *Nargesh Mirza v. Air India International* [AIR, 1981, SC, p. 1,829; Sathe, 1981, Pp. 194,198], the Supreme Court upheld a provision of the Air India International's service rule which forbade air hostesses to get married before completing four years of service, when no similar prohibition existed for male stewards. The Supreme Court was impressed by the argument advanced on behalf of the Air India that such a service condition subserved the cause of population control. The Court did not feel like asking why a similar prohibition was not imposed on the male stewards. The classification theory satisfied them that the air hostesses formed a class and such a prohibition would help control the growth of population. The Supreme Court, however, held invalid another service condition contained in those regulations. That regulation required an air hostess to resign her job on becoming pregnant. Here also the population control argument might have appealed to the judges had the Air India

agreed to the suggestion of their counsel to make such resignation obligatory upon the third pregnancy instead of the first pregnancy.

In *Somitri Vishnu v. India*, [AIR, 1985, SC, p. 1,618; Sathe, 1985, Pp. 209-10] the Court upheld Section 497 of the IPC which punished adultery. Adultery is defined as an illicit sexual intercourse by a man with a married woman. If a man has illicit relations with an unmarried woman, it does not amount to adultery. Further, only the man is punishable but not the woman with whom such illicit relations exist. In matrimonial law, adultery is a ground of divorce for either of the spouses. The Court saw no inequality on the ground of sex in the above provision, though it was clear that the section treated the wife as the property of the man, and adultery was essentially an offence against the husband. The validity of the section was challenged on the ground that it was based on woman subordination and, therefore, clearly violated the guarantee of equality before the law (Article 14), and no discrimination on the ground of sex (Article 15(1)). The Court rejected that challenge and held that there was no discrimination on the ground of sex. The Court did not ask whether there was discrimination on the ground of gender. Although the Constitution forbids discrimination on the ground of sex, discrimination on the ground of gender is even worse and a court must strike it down as being against equality. There cannot be classification on the ground of gender. Classification on the basis of gender is *per se* unreasonable. Having failed to obtain favourable judicial response to gender discrimination under Article 14, the lawyers preferred to attack gender discrimination under Article 21 of the Constitution. The practice of the Life Insurance Corporation to require women applicants for jobs to provide information about their menstrual cycles and pregnancies was successfully challenged not on the ground of alleged violation of right to equality but on the ground of violation of right to privacy, which was part of the right to personal liberty guaranteed by Article 21 [*Neera Mathur v. Life Insurance Corporation*, AIR, 1992, SC, p. 392]. In the United States, the Supreme Court of the United States had held that the first ten amendments of the Constitution

containing basic freedoms such as freedom of speech, freedom of religion or right to personal liberty were enforceable against the federal government but not against the states [*Barron v. Baltimore*, U.S. Vol. 32, p. 243 (7 Pet)]. The Fourteenth Amendment, which guaranteed equal protection of law, and that no person shall be deprived of his life, liberty or property except by due process of law, was enacted to provide protection against the states. In later years, the Supreme Court of the United States held that all the fundamental rights guaranteed by the first ten amendments were incorporated in the Fourteenth Amendment and were, therefore, enforceable against the states [Morrison, 1949, p. 140]. The Supreme Court also extended the protection of the equal protection clause contained in the Fourteenth Amendment against the actions of the Federal Government of the United States [*Schneider v. Rust*, U.S. 1964, p. 163]. The Indian Supreme Court has similarly fallen back upon Article 21 of the Constitution to provide gender justice and gender equality where the classification theory or the arbitrariness principle could not be adequately used in their defence.

### *Economic Inequality*

Economic inequality was the issue in legislation relating to property relations and although the Courts acted legalistically on right to property, for the last twenty years, there has been no confrontation between the Court and the Parliament on that issue. In recent years the Courts have been activist in respect of right to equality in educational opportunities. Most of the cases pertained to the disciplines, like Medicine and Engineering. These two disciplines offered the best opportunities of earning wealth and social prestige. Since facilities for such education were bound to be limited in view of large investment required, admissions could be given only to a few. Discrimination in admission was always alleged and those matters went to Court. In this area, judicial activism has verged on judicial populism. The Courts some times ordered the examining bodies to admit students for examination even when they had not done their terms in an institution recognised by such a body. Having

admitted them to the examination, the results were also ordered to be declared and some people got their degrees even though they had not gone through the requisite course of education in the prescribed manner. The nebulous test of arbitrariness has again enabled the Court to reach some undesirable results. In 1984, the Supreme Court held in *Pradeep Jain v. Uttar Pradesh* [AIR, 1984, SC, p. 1,420], that all-India competitive entrance test must be held for selecting students for admission to super speciality courses such as neuro-surgery in medicine. The Court observed that reservation for local students or students of the institution from which they had passed the graduate examination should be restricted to 70 per cent in the case of undergraduate and 50 per cent in the case of post-graduate courses. All other seats must be filled on merit through an entrance test held on all-India basis. Even after more than a decade since that decision was given, that order of the Court has not been implemented because it is grossly impractical. Besides its impracticability, even as a policy, there was nothing commendable in it. Why should such artificial gestures of national integration be imported in matters like admission to educational institutions? It was a matter of policy which should have been left to the Legislature, educational institutions, and the government. The Legislatures should follow the policy of admission to neighbouring colleges. There will doubtless be greater national integration if people are not forced out of their homes to a distant place. This depends on uniform development of all regions of India. This was a case where in our opinion, the Court clearly exceeded the limits of judicial review.

In *Mohini Jain v. State of Karnataka* [AIR, 1992, SC, p. 1,858], the Supreme Court held that right to education was a fundamental right, being part of the right to live. Justice Kuldeep Singh went to the extent of saying that it was the duty of the Indian State to provide opportunities for education by opening as many institutions as might be required for satisfying the needs of all those who aspired to take education. This would have created an impossible situation [Sathe, 1992, Pp. 1,847-48].

Realising the onerous burden that such a norm would impose on the economy, the Supreme Court tried to narrow down the scope of its dictum by limiting it to primary education in *Unnikrishnan v. A.P.* [SCC, 1993, Vol. 1, Pp. 645, 1,420; Sathe, 1984, p. 342]. In this case, the scheme of abolition of capitation fee for admission to professional colleges was challenged. Admission to professional colleges became difficult because of the rush for admissions and comparatively fewer seats available. Some state governments allowed private educational institutions to start their medical and engineering colleges. Such colleges charged higher fees than those charged in government colleges. The Court might have upheld this on the ground that those who went to private colleges had to pay more; how much more could be decided by the government. This would have doubtless resulted in inequality because the richer students would get opportunities of education more than the poorer students. But then the Court could not help it because such inequality was a mere reflection of the inequality that existed in society. Either the Court could ban all the private colleges or allow them to take higher fees. They would not have survived on the fees that were charged by the government colleges. Education in government institutions was subsidised. If the State could not subsidise education in private colleges, it had to allow them to charge higher fees as much as were required for meeting the costs of education. What the court, however, did was to legislate that all the private institutions, shall charge different fees for 50 per cent of the students from the other 50 per cent. One group of 50 per cent seats was called the 'free seats' and the other group of 50 per cent seats was called 'payment seats'. 'Free seats' were those for which the normal fee payable in a government college would be paid and the 'payment seats' were those for which higher fee, almost four to five times of the normal fee, could be charged. All the seats were to be filled in on merit. In this process, the Court increased the space for the students who could not pay higher fees because in addition to government-run institutions, they could also try their luck for a seat in the 50 per cent free seats in a private college. But the main flaw in that scheme was that



the different treatment given to 50 per cent of the seats called the payment seats was not based on any reasonable classification. It was just the accident of being among the first 50 that entitled a person to take education with a lower fee. The higher fee was not related to the economic conditions of a student. So the richer students got twice the opportunity than the poorer students. They could try for a free seat and if they did not succeed in getting it, they could try for a payment seat whereas a poor student could not try for a payment seat after having failed to get a free seat. Should the law mitigate inequality or should it increase it? In our respectful submission, the solution suggested by the Court was neither just nor consistent with the ideal of equality. This was because the judicial process is not the proper process for legislating on such a complex issue. Several options could have been tried if the matter had been dealt with by the Legislature. The entire fee structure in higher education could have been revised. The policy of subsidising the higher education needed to be re-examined. All this could not be done through judicial process and, therefore, the Court clearly acted beyond the scope of judicial review.

#### JUDICIAL ACTIVISM AGAINST ABUSE OF POWER

During initial years of the welfare state, the courts showed greater trust in the Executive. In the United States also after the initial resistance to President Roosevelt's New Deal legislation, the Courts adopted a policy of not interfering with the economic regulation undertaken by the State. The judicial policy, however, changed since the late fifties and the courts adopted a more critical attitude towards administrative action. In England, the courts also developed critical attitude towards the exercise of administrative discretion. In *Associated Provincial Picture Houses Ltd. v. Wednesbury's Corporation* [K.B., 1949, Vol. 1, p. 223], the House of Lords laid down limits of judicial review of administrative discretion. The Court made it clear that a public functionary could never have absolute discretion and the exercise of discretion would be subjected to strict judicial scrutiny. But judicial review of the exercise of administrative discretion was subject to judicial restraint. If an administrative

authority had acted within its powers, had acted in accordance with the rules of natural justice and taken all relevant factors into consideration, and had not acted mala fide, the Court would not interfere. The Court would not substitute its opinion in place of that of the administrative authority if the administrative authority had arrived at its opinion in accordance with the above parameters. This is known as *Wednesbury's* principle. In later years, however, the Courts have gone beyond the *Wednesbury's* principle into the question of proportionality, which means whether an action was proportionate to the mischief, whether violation of any of the rights given by the European Convention on Human Rights was alleged to have been committed [Wade and Forsyth, 1997, Pp. 379-453]. Administrative law in India has also developed along similar lines [Sathe, 1998].

#### LARGESSE - SITE FOR ABUSE OF POWER

Largess means privilege given by the State in the form of a contract, a licence or a monopoly to a private concern or dealer to do business or supply certain commodities or render some services. The power to distribute largesse is pregnant with the possibility of abuse of power and also corruption. In giving such largesse, two types of corruption can take place: (1) power is exercised to grant such largesse to the favourites of the ministers or officials, thus leading to nepotism or favouritism; and (2) where largesse is lucrative, hidden commissions may be offered to ministers or other officials for preferring one bidder against another. The Supreme Court has held that the grant of largesse must not violate the right to equality. All the potential bidders must get equal opportunity to compete for it. The first abuse takes place in the selection of the person to whom such largess is to be given and the second in the terms of the largess being granted. The government can enter into a contract with private entities for the supply of certain commodities or construction of certain dams or bridges or power projects. These are often high cost projects and the terms must be in the public interest [*R.D. Shetty v. International Airport Authority*, SCC, 1979, Vol. 3, p. 489]. However, judicial review has not deterred the

occupants of high offices from using the power of giving largesse for personal advantage. This remains the main source of corruption.

#### MISUSE OF POWER

The first case of misuse of power by a minister arose when Chief Minister of Punjab Pratapsingh Kairon took action against a physician on fictitious charges of corruption after he had retired. The Supreme Court had gone into the relationship between Kairon and the physician, and had quashed the proceedings on the ground that the Chief Minister had acted maliciously because of the latter's refusal to render some personal services to him. That was the first case of abuse of power [*Pratap Singh v. State of Punjab* AIR, 1964, SC, p. 72; Sathe 1998, p. 347]. The second notable case was a few years later in which it was held that A. R. Antulay, the Chief Minister of Maharashtra, had misused the power given to him by the Essential Commodities Act to control the supply and distribution of essential commodities which in this case was cement. Instead of allotting cement to the needy and in accordance with the priorities laid down under the law, the Chief Minister had allotted it to those who gave donations to a foundation set up by him in the name of Prime Minister Indira Gandhi. The *nazrana* culture (which means giving gifts to political superiors, a typical trait of a feudal order) had proliferated by then. The High Court of Bombay struck down those orders of allotment and asked the Chief Minister to allot cement in accordance with the criteria laid down under the law [*P.B. Samant v. Maharashtra*, Miscellaneous Petition No. 1,165 of 1981. High Court of Bombay, Original Side, January 12, 1982].

We have two recent cases in which two highly placed politicians were involved. Both were held to be instances of abuse of discretion. One is *Common Cause, A Registered Society v. India* [SCC, 1996, Vol. 6, p. 530] and the second is *Shiv Sagar Tiwari v. India* [SCC, 1996, Vol. 6, p. 558]. We will discuss these two cases in detail because they show how judicial review became activated against abuse of power.

#### Petrol Pump Case

In *Common Cause, A Registered Society v. Union of India* [SCC, 1996, Vol. 6, p. 530] the Court heard a petition by a social action organisation known as Common Cause. In pursuance to a news item that appeared in a national newspaper, the Director of Common Cause filed a public interest writ petition challenging the allotments of retail outlets for petroleum products (petrol pumps) made by the then Minister of State for Petroleum and Natural Gas, exercising the powers of the central government. Petrol pumps were to be allotted to people who suffered from poverty or unemployment. The Court observed that six of the allottees were related to various officials working with the Minister. One was the mother of the Minister's driver, another was the relation of the private secretary to the minister, two were related to the additional private secretary and one was the wife of an additional private secretary. Two allottees were related to politicians, one was the son of Buta Singh, who was Home Minister, and another the son of Hollohon, Minister in the state of Nagaland. Remaining seven allottees were members of the Oil Selection Boards or their relations, one of whom was the son of a retired judge who happened to be the chairman of the Oil Selection Board. Justice Kuldeep Singh, feeling agonised over such blatant nepotism, said [SCC, 1996, Vol. 6, p. 552, para 20]:

The allotments have been made by the minister either on the ground of poverty or unemployment. Assuming that the allottees belong to either of these two categories then how the minister has selected them out of millions of poor and unemployed in this country. ... (N)o criteria was fixed, no guidelines were kept in view, no one knew how many petrol pumps were available for allotment. Applications were not invited and the allotments of petrol pumps were made in an arbitrary and discriminatory manner.

After perusing the names of the beneficiaries, the Judge further observed [SCC, 1996, Vol. 6, p. 553, para 21]:

It is obvious that Capt. Satish Sharma was personally interested in making allotments of petrol pumps in favour of all these 15 persons. He made allotments in favour of relations of his personal staff under the influence of the staff on wholly extraneous considerations. The allotments to the sons of the ministers were only to oblige the ministers. The allotments to the members of the Oil Selection Boards and their Chairman's relations have been made to influence them and to have favours from them. All these allotments are wholly arbitrary, nepotistic and are motivated by extraneous considerations.

The Court ordered that all those allotments shall stand cancelled. The Court further ordered that each of the petrol pumps shall be disposed of by way of public auction. The original allottees could also participate in the auction. The petrol pumps shall be allotted to the highest bidder. The Court asked Sharma to pay Rs 50 lakh as compensation and also issued a 'show cause' notice why he should not be prosecuted for criminal breach of trust. In another judgment, the Court laid down the law on the liability of a public servant for such misuse of power [*Common Cause, A Registered Society v. India*, SCC, 1996, Vol. 6, p. 593].

#### *Out-of-Turn Allotment of Government Houses*

In *Shiv Sagar Tiwari v. Union of India* [SCC, 1996, Vol. 6, p. 558], a writ petition filed by a lawyer on the basis of newspaper report about large scale out of turn allotment of government houses came up for hearing. In Delhi, there was great scarcity of houses for government servants. Employees of class III and IV were required to wait for 20 to 25 years to get a house. If a government servant did not get a government quarter, he had to pay exorbitant rent which ate away a large chunk of his salary. Although rules for the allotment of government houses existed, the ministry or the department was given power to relax the rules and could deal with a case in order to avoid undue hardship to any person. Here again it was found that Shiela Kaul, Minister of Urban Development, had allotted government houses to friends or persons who were related to

her servants. This was held to be not only gross abuse of the discretion given to the Minister to make exceptions to the rules in case of exceptional hardship but criminal breach of trust by the Minister. The Court asked her to pay Rs 60 lakh as exemplary damages [SCC, 1996, Vol. 6, p. 599].

The Court then went on to decide how the occupants who had been allotted those quarters illegally should be dealt with. Some would have to pay higher rent with retrospective effect, some would be evicted and some would be shifted to the lower category type houses which they occupied before coming to occupy the bigger houses. The Court laid down detailed procedure for eviction and recovery of rent and transfer to the lower type houses.

The award of damages against the Minister was the most unorthodox step taken by the Court. In strict legal terms it could be asked whether the court had such powers and whether the proper procedures had been followed before imposing such a liability on the Minister. But the Court's activist stance against corruption and misuse of power received overwhelming public appreciation. There was a feeling widely shared that the fetish of legality should not come in the way of the Court's tirade against misuse of power by ministers. Such misuse did not happen for the first time in these cases. It must have been happening all these years. The fact that the Court had now decided to stand up against it appeared reassuring and, therefore, the people were willing to overlook the legal niceties. This was, of course, a populist action of the Court.

#### *CBI and Investigation of Corruption Cases*

Judicial activism became much more visible when writ petitions were filed in the Supreme Court complaining that proper investigation of offences alleged against some high political dignitaries, whose names had appeared in the Jain diaries, were not progressing satisfactorily. The petitions also raised a question as to how investigations of a similar nature, which might occur

hereafter, should be conducted. In *Vineet Narain v. India*, Chief Justice Verma reflectively observed [SCC, 1998, Vol. 1, Pp. 226, 243]:

Everyone against whom there is reasonable suspicion of committing a crime has to be treated equally and similarly under the law, and probity in public life is of great significance. The constitution and working of investigative agencies revealed the lacuna of its (their) inability to perform whenever powerful persons were involved. For this reason, a close examination of the constitution of these agencies and their control assumes significance. No doubt, the overall control of the agencies and responsibility of their functioning has to be in (with) the Executive, but then a scheme giving the needed insulation from extraneous influences even of the controlling Executive, is imperative.

In this case, the Court went into the structure of the CBI and suggested procedure for selecting its chief. The Court monitored the proceedings through what was called 'continuing *mandamus*'. The Court further clarified that such monitoring would end the moment a charge-sheet was filed in respect of a particular investigation and that the ordinary processes of the law would then take over. In laying down the structure of the CBI and stating how the Vigilance Commissioner should be appointed, the Court doubtless exceeded its powers. But this judicial excessivism was received well. This was again because any such intervention in matters of corruption was unknown in India and people, having lost faith in the other organs of government, chose to take recourse to judicial process even though it meant governance by the judiciary.

#### ANTI-CORRUPTION JURISPRUDENCE

The Supreme Court has been developing the jurisprudence of corruption for the last few years. In *R. Rajgopal v. Tamil Nadu* [SCC, 1994, Vol. 6, p. 632; Sathe, 1994, Pp. 99, 104], the question about the balance between the right to information and the right to privacy came up for judicial consideration. The petitioner was the editor of a Tamil Weekly. He had agreed to publish an autobiography of one Shankar, who had been

convicted of murder and sentenced to death. The autobiography was to reveal the complicity of some police officers in the crimes committed by him. The police authorities had issued a warning to the petitioner against publishing that autobiography on the grounds that (1) the prisoner Shankar had not obtained the permission from the prison authorities as was required by the prison Rules; and (2) publication of the autobiography would amount to blackmail and would be liable to action. The editor therefore approached the Court urging it to restrain the police officers from interfering with the publication. Opposing that petition, the police officers said that the publication would violate their right to privacy. The questions for the Court's determination were as follows: (i) Did a citizen have a right to prevent another person from publishing his autobiography on the ground that it would adversely affect his right to privacy? (ii) Did freedom of the press include the right to publish an unauthorised writing of a person? Could the prison authorities refuse permission to a prison inmate to write and publish his autobiography? And (iii) what remedies other than stopping the publication were available to a person if the impugned publication violated his right to privacy or defamed him?

The answer to the first question obviously was that no one could stop a publication on the ground that it might affect his interests adversely, because prior restraint on freedom of speech is *per se* unconstitutional. The answer to the second question was also given on the basis of the established precedents that prison authorities did not have absolute power to refuse permission to publish. A prison inmate had the right to give interviews [*Pratap Dutt v. India*, AIR, 1982, SC, p. 6; *Sheela Barse v. India*, SCC, 1987, Vol. 4, p. 373; Sathe, 1991]. The answer to third question was that the police officers could of course have all those remedies which were available to an ordinary citizen against publications which caused defamation or breach of the right to privacy. A civil suit for damages would lie for any of these causes. The respondent police officers wanted to use their official position to muzzle the publication on the ground that their right to

privacy would be jeopardised. It is in that connection that the Court had to delineate the scope of the right to privacy of the police officers. The Court had already held earlier that the right to privacy was part of the right to personal liberty. If the police officers had the fundamental right to privacy, could they not invoke that right to obtain an injunction against the publication? Here the Court made a very radical departure from the existing law in respect of the public officials. The Court said [SCC, 1994, Vol. 6, Pp. 632, 650]:

In the case of public officials, it is obvious, right to privacy, or for that matter, the remedy for action for damages is simply not available with respect to their acts and conduct relevant to the discharge of their official duties. This is so even where the publication is based upon facts and statements which are not true, unless the official establishes that the publication was made (by the defendant) with reckless disregard for truth. In such a case, it would be enough for the defendant (member of the press or media) to prove that he acted after a reasonable verification of the facts; it is not necessary for him to prove that what he has written is true.

This means a significant empowerment of the vigilant citizen and the media who want to expose abuse of power or corruption by the public officials. Although the Court has not laid down the above principle in respect of defamation, we hope that the Court will apply similar parameters for judging the allegation of corruption in a defamation suit or prosecution for defamation by a public official also. If in a suit for breach of the right to privacy, the defendant does not have to prove the truth of his allegations, it should apply to the defendant in the defamation case also. What the defendant in a privacy or defamation case will have to prove is that the statements were made after reasonable verification. The onus of proving that they were not true and were made recklessly would shift on the plaintiff. This change in judicial attitude is because it is always easier for the plaintiff to prove that the allegations are false than for the defendant to prove that they are true when

those allegations are made against a public official since the access to information available to the citizen/ media is restricted as compared to the access available to the official.

#### JUDICIAL REVIEW OF THE PRESIDENTIAL ACTIONS

The above cases show the activist thrust of the Supreme Court for ensuring good governance and probity in public life. The Court has entered into areas in which earlier it did not venture to go. The powers of the Executive vested in the highest authority like the President of India were supposed to be outside the purview of judicial review. It was thought that the exercise of such power should be controlled by the political process since the President acted on the aid and advice of the Council of Ministers (Article 74(1)). But during the last decade, the Court held that even the powers given to the President, such as the power to grant pardon to a person who has been sentenced to death or the power to commute a sentence or give reprieve, vested in the President (Article 72(1)) could be judicially reviewed [*Kehar Singh v. India*, AIR, 1989, SC, p. 653]. The Court, however, showed maximum deference to the will of the President. Although normatively his decision was reviewable, in practice, the Court applied strongest presumption of validity to those actions.

#### Article 356: Centre's Hegemony Challenged

Article 356 of the Constitution provides that when the President of India is satisfied that the government of a state is not functioning 'in accordance with the provisions of this Constitution,' he may by proclamation (a) assume to himself all or any of the functions of the government of the state and all or any of the powers vested in or exercisable by the Governor or any body or authority in the state other than the Legislature of the state; (b) declare that the powers of the Legislature of the state shall be exercisable by or under the authority of Parliament (Article 356(1)). The Article, however, does not authorise the President to assume to himself any of the powers vested in or exercisable by a High Court,



or to 'suspend in whole or in part the operation of any provision of the Constitution relating to High Courts (Proviso to Article 356(1)). A proclamation, is required to be laid before both Houses of Parliament and ceases to operate at the expiration of two months if it is not approved by both Houses of Parliament within such period (Clause (3), Article 356). After its approval by both Houses of Parliament, the proclamation remains valid for six months from the date of issue (Clause (4), Article 356). It can be given further lease of life for another six months if such extension is approved by both Houses of Parliament. However, the total period for which such proclamation remains operative cannot exceed three years (Proviso 1 to Clause (4), Article 356). This is popularly known as the President's rule. This power was supposed to be exercised with great restraint and in exceptional circumstances. Dismissal of a state government elected for a term of period should be a rare phenomenon. One democratically elected government dismissing another equally democratically elected government is negation of democracy as well as federalism.

Since the Congress party had an overwhelming majority in Parliament and in most of the states, there was, for all practical purposes, a one party rule. Article 356 was invoked more often than it should have been and, mostly, for removing the governments of the opposition parties. The Communist party's government in Kerala was dismissed in 1959 though it had a majority support in the Legislature. The summary table given by the Lok Sabha Secretariat to the Supreme Court in *S.R. Bommai v. India* [AIR, 1994, SC, p. 1,918] showed that the President's rule was imposed 82 times on the states and 13 times on the union territories until 1991. Out of the total of 95 times in which Article 356 was invoked, on 23 occasions the assemblies were dissolved on the advice of the Chief Ministers or due to their resignations. On 18 times, they were merely suspended and subsequently revived [See Justice Ratnavel Pandian's judgment in *S.R. Bommai v. India*, AIR, 1994, SC, p. 1,918, p. 1,943].

When the Janata government came to power in 1977, it dismissed nine state governments and dissolved their assemblies in one stroke on the ground that the ruling party in those states, which was the Congress party, had suffered defeat in the elections to the Lok Sabha. The real motive behind such dismissal was to have those state assemblies re-elected with majority of the seats going to the Janata party, which would have ensured the election of its nominee to the office of the President of India. The election to that office was to take place in the near future. Unfortunately, when suits were filed under Article 131 of the constitution (which is a jurisdiction for Centre-state disputes) by the affected state governments, the Supreme Court in *State of Rajasthan v. Union of India* [AIR, 1977, SC, p. 1,361] dismissed those suits. Although the Court held that the action of the President under Article 356 was subject to judicial review and could be held invalid if the President acted *ultra vires* or *mala fide*, in the present case, the proposed action was neither *ultra vires* nor *mala fide*. The judges seemed to approve of the action of the President. Justice Bhagwati observed that normally if in an election to the Lok Sabha, the ruling party fared badly, it would not be a ground for dismissing that government by invoking Article 356. But the situation arisen after the election to the Sixth Lok Sabha, was 'wholly different' in his opinion. The judge said [AIR, 1977, SC, p. 1,416, para 147]:

This is not a case where just an ordinary defeat has been suffered by the ruling party in a State in the elections to the Lok Sabha. There has been a total rout of candidates belonging to the ruling party. ... Never in the history of this country has such a clear and unequivocal verdict been given by the people, never a more massive vote of no-confidence in the ruling party. When there is such crushing defeat suffered by the ruling party and the people have expressed themselves categorically against its policies, it is symptomatic of complete alienation between the government and the people.

The Court could have held that it would not decide the legality of the President's action because it was not justiciable. But after saying that the matter was justiciable, its endorsement of the action, which was palpably the worst possible abuse of Article 356, was indefensible [Jacob and Dhavan, 1977, p. 355].

When the Janata government fell, and the Indira Gandhi's Congress came back, it repeated the same exercise against the state governments ruled by the Janata party and its allies. It did not have any apprehensions because the Supreme Court had held such an act as valid.

As the Congress party's hegemony came to an end and various regional parties came up in several states, the question of Article 356 became critical. A commission was appointed under the Chairmanship of Justice Sarkaria to study the Centre-state relations. It made valuable recommendations in that regard and particularly about the use of Article 356 [Government of India, 1988]. The Commission clearly stated that dismissal of a state government on the ground that the ruling party had lost in the election to the Lok Sabha was clearly wrong and should not be done [Government of India, 1988, Vol. I, p. 173].

#### *Ayodhya Disaster and Article 356*

For a long time a demand had been made by some Hindu organisations for shifting the mosques at Ayodhya, Mathura and Kashi (holy places of the Hindus) and building temples on their sites.

It was contended that the temples stood on those sites before the invasion of India by Muslim rulers. The temples were demolished and mosques were built on those sites after the Muslim invasion. The Hindu right wanted to restore those temples on those very sites. Historically, whether the temples stood on those sites on which mosques were at present located was disputed. In recent years, the Bharatiya Janata party (BJP) had openly supported that demand. The espousal of that demand had helped that party to increase its strength in Parliament and state legislatures. In Uttar Pradesh, Madhya Pradesh, Rajasthan and

Himachal Pradesh, the BJP was the ruling party. The BJP government in Uttar Pradesh had promised the Supreme Court that the *status quo* would not change until the Court decided the issue.

On December 6, 1992, the Babri mosque was demolished by the volunteers of the Vishwa Hindu Parishad and Bajrang Dal, with the full connivance of the BJP government in Uttar Pradesh. After the demolition of the mosque, the Chief Minister of Uttar Pradesh tendered his resignation. The President, acting on the advice of the Council of Ministers of the Central Government dismissed the BJP governments in the states of Madhya Pradesh, Rajasthan and Himachal Pradesh. Three governments had been earlier dismissed under Article 356, namely, those of Karnataka, Meghalaya and Nagaland. Bommai, Chief Minister of Karnataka, had filed a petition against the dismissal of his government. Subsequently, other state governments, which were dismissed, also filed petitions against their dismissal. All cases of dismissal of state governments under Article 356 were taken up together in *S.R. Bommai v. India* [AIR, 1994, SC, Pp. 1,918].

In *Bommai*, a nine judges bench (Pandian, Ahmadi, Kuldip Singh, J. S. Verma, P. B. Sawant, K. Ramaswami, S. C. Agrawala, Yogeshwar Dayal and B. P. Jeevan Reddy) heard the matter. It was held by majority of six judges against three that dismissal of the governments of Karnataka, Meghalaya and Nagaland was unconstitutional and void. However, since fresh elections in those states had already been held and new governments had come to office, the Court chose not to disturb the arrangement. But the Court warned that it might not happen that way in future. Justice P. B. Sawant said [AIR, 1994, SC, Pp. 1,918, 1,984, para 73]:

There is no reason why the Council of Ministers and the Legislative Assembly should not stand restored as a consequence of the invalidation of the proclamation, the same being the normal legal effect of the invalid action.

It is interesting that the judge relied upon the decision of the Supreme Court of Pakistan in *Mian Muhammad Nawaz Sharif v. President of Pakistan and Others* [PLD, 1993, SC, p. 473] for the above proposition. The Court, however, upheld the dismissal of three BJP governments in Madhya Pradesh, Rajasthan and Himachal Pradesh. *Bommai* is the most important and politically significant decision of the Court since *Kesavanand Bharati* [AIR, 1973, SC, p. 473]. Whereas in *Kesavanand Bharati*, the Court asserted the power of review of the exercise of the constituent power by Parliament, in *Bommai*, the Court asserted its power of judicial review over the exercise of power by the President under Article 356 of the Constitution. Until then the Court had claimed a limited power of judicial review over the exercise of power by the President under Article 123 (Ordinance-Making power) [*A.K. Roy v. India*, AIR, 1982, SC, p. 710], Article 352 (power to declare an emergency) [*Minerva Mills v. India*, AIR, 1980, SC, p. 1,789], and Article 356 (power to impose President's rule) [*State of Rajasthan v. India*, AIR, 1977, SC, p. 1,361]. These Articles confer power on the President and they are to be exercised on the advice of the Council of Ministers. These powers are essentially political in nature and, therefore, the Constitution had entrusted control over the exercise of those powers to Parliament. Political process rather than judicial process was supposed to be the main reliance for preventing abuse of power.

The judges differed on the scope of judicial review of the exercise of power under Article 356. The Supreme Court has laid down tests for determining the proper exercise of discretionary power in *Barium Chemicals Ltd. v. The Company Law Board* [AIR, 1967, SC, p. 295], which were similar to those laid down by the House of Lords in England in the famous *Wednesbury's* case. Justice Ahmadi wondered whether the tests laid down for the determination of the validity of the exercise of administrative discretion could be applicable to the exercise of discretion by the President under Article 356 of the Constitution. The Judge said [*S.R. Bommai v. India*, AIR, 1994, SC, Pp. 1,918, 1954-55, para 34]:

It must be remembered that the power conferred by Article 356 is of an extraordinary nature to be exercised in grave emergencies and, therefore, the exercise of such power cannot be equated to the power exercised in administrative law field and cannot therefore be tested by the same yardstick. Several imponderables would enter consideration and govern the ultimate decision, which would be based, not only on events that have preceded the decision, but would also depend on likely consequences to follow and therefore it would be wholly incorrect to view the exercise of the President's satisfaction on par with the satisfaction recorded by executive officers in the exercise of administrative control.

The Judge came to the conclusion that it was difficult to hold that the decision of the President was justiciable to the same extent as the decision of any administrative authority. It could be challenged on the limited ground that the action was mala fide or *ultra vires* Article 356 itself.

Justice Verma, speaking on behalf of himself and Justice Yogeshwar Dayal, and agreeing with the above view of Justice Ahmadi, observed [*S.R. Bommai v. India*, AIR, 1994, SC, Pp. 1,918, 1957, para 43]:

The ultimate opinion formed in such case, would be mostly a subjective political judgment. There are no judicially manageable standards for scrutinising such materials (which are the basis of the subjective satisfaction of the President) and resolving such a controversy. By its very nature such controversy cannot be justiciable.

Justice P. B. Sawant writing on behalf of himself and Justice Kuldip Singh, observed that democracy and federalism were the essential features of the Constitution and the power, vested *de jure* in the President and *de facto* in the Council of Ministers by Article 356, had 'all the latent capacity to emasculate the two basic features of the Constitution' [*S.R. Bommai v. India*, AIR, 1994, SC, Pp. 1,918, 1,976, para 6]; and therefore it was necessary to scrutinise 'more closely and circumspectly' the materials on the basis of which

the advice was given and the President formed his satisfaction. The Judge however further qualified the scope of judicial review by confining it to 'the acknowledged parameters of the judicial review', namely, illegality, irrationality and mala fides. He, therefore, went further than Justice Ahmadi and Justice Verma in including irrationality as a ground of judicial review. What did he mean by irrationality? Did he also envisage disproportionateness of the actions of the President? The judge conceded that it was possible for the President to use only some of the requisite powers vested in him under Article 356(1). He does not have to use all the powers to meet all the situations whatever the kind and degree of the failure of the constitutional machinery in the State. He says that 'whether in a particular situation, the extent of powers used is proper and justifiable is a question which would remain debatable and beyond judicially discoverable and manageable standards' [AIR, 1994, SC, Pp. 1,918, 1982, para 71]: If the validity of an action is to be judged by the test of proportionality, how can a Court escape examining it on merits? But going into merits would mean undertaking an evaluation of the political decision of the President by the Court. Such evaluation could not be, except by political parameters. The Judge, it seems, was not willing to admit this. Therefore he took recourse to a more traditional strategy when he said that 'unless the exercise of the executive power is so palpably irrational or mala fide as to invite judicial intervention' [AIR, 1994, SC, Pp. 1,918, 1982, para 71], the Court would not undertake such an examination. It means that the Court would defer to the judgment of the President regarding proportionality unless the action appears to it to be palpably irrational or mala fide. Can a Court say that an action is palpably irrational or mala fide without going into the political aspects of the President's decision and the power equation between the ruling party at the Centre and the ruling party at the state? Will such an examination of the President's decision not take the Court into political arena which, it seems, the judges want to steer clear of? This fear was expressed in the following words [AIR, 1994, SC, Pp. 1,918, 1,983]:

There is every risk and fear of the Court undertaking upon itself the task of evaluating with fine scales and through its own lenses the comparative merits of one rather than the other measure. The Court will thus travel unwittingly into the political arena and subject itself more readily to the charges of encroaching upon policy making. The 'political thicket' objection sticks more easily in such circumstances.

Justice B. Jeevan Reddy, speaking on behalf of himself and Justice Agrawala conceded that regarding the scope of judicial review, 'there is not, and there cannot be, a uniform rule applicable to all cases. It is bound to vary depending upon the subject-matter, nature of the right and various other factors' [AIR, 1994, SC, Pp. 1,918, 2,076, para 264]. He further said that the principles of judicial review of administrative action settled in *Barium Chemicals case* [AIR, 1967, SC, p. 295] could not *ipso facto* apply to the exercise of constitutional power under Article 356. He asserted that the proclamation under Article 356(1) was not immune from judicial review, 'though the parameters thereof may vary from an ordinary case of subjective satisfaction' [AIR, 1994, SC, Pp. 1,918, 2,091, para 305]. The judge therefore laid down the following judicial policy [AIR, 1994, SC, Pp. 1,918, 2,091, para 306]:

In other words, the truth or correctness of the material (on which the President's satisfaction is based) cannot be questioned by the Court nor will it go into the adequacy of the material. It will also not substitute its opinion for that of the President. Even if some of the material on which the action is taken is found to be irrelevant, the Court would still not interfere so long as there is some relevant material sustaining the action.

Justice Ramaswami also held that since the exercise of the power under Article 356 was a constitutional exercise, the normal rules regarding the validity of the decisions taken by subordinate officers or quasi-judicial authorities would not apply to the decision of the President under Article 356. He says [AIR, 1994, SC, p. 2,047, para 192]:

It (judicial review) is a delicate task, though loaded with political overtones, to be exercised with circumspection and great care. In deciding finally the validity of the Proclamation, there cannot be any hard and fast rules or fixed set of rules or principles as to when the President's satisfaction is justiciable and valid.

A perusal of the judicial opinions of the nine judges tells us that while three judges (Ahmadi, Verma and Yogeshwar Dayal) were clearly of the opinion that there could not be judicial review of the President's action except on the grounds of it being *ultra vires* or mala fide, the other three judges, B. Jeevan Reddy, Agarwala and Ramaswami were of the view that although the President's action was subject to judicial review, such review would not be like the review of any other administrative action but has to be much more restrained and there has to be stronger presumption of constitutionality than in ordinary cases of judicial review of administrative action. The other three judges (Sawant, Kuldip Singh and Pandian) were of the view that judicial review of the President's action would be of the same nature as judicial review of any other administrative action. Unlike judicial review of an administrative action taken by any administrative official, judicial review of what the President had done under Article 356 was essentially a judicial review of a political action and such judicial review had to be on a different plane.

One of the most crucial suggestions made by Justice B. Jeevan Reddy, which we also find in the judgment of Justice Sawant, is that the Legislative Assembly should not be dissolved until Parliament had approved the Proclamation. Justice Sawant observed that the President had no power to dissolve the Legislative assembly of the state until the Proclamation was approved by both Houses of Parliament under Clause (3) of Article 356. The President may have power only to suspend the Legislative Assembly under Sub-clause (c) of Clause (2) of Article 356. Clause (3) of Article 356 which requires approval of both the Houses of Parliament was a check upon the exercise of power of the President under Clause

(1). The judges made it clear that even if Parliament approves the Proclamation, that would not inhibit the Court from declaring it unconstitutional and void if it was so. Keeping the assembly in suspended animation until Parliament approved the Proclamation was one way of strengthening the parliamentary control.

Although the judges defined the scope of judicial review differently, they did evaluate the impugned actions on merit, and upheld three actions in respect of the states of Madhya Pradesh, Himachal Pradesh and Rajasthan and held invalid the actions in respect of the states of Karnataka, Meghalaya and Nagaland. In the case of Karnataka, Meghalaya and Nagaland, the Court found that the Governors had acted partisanly and had not ascertained according to proper procedure whether the Chief Minister enjoyed the confidence of the House. The Court observed that in all cases where the support to the ministry was claimed to have been withdrawn by some legislators, the proper course for testing the strength of the ministry was holding the test on the floor of the House. In the case of Meghalaya, the Court criticised the Governor's unnecessary anxiety to dismiss the ministry. In the case of the governments of Madhya Pradesh, Rajasthan and Himachal Pradesh, the Court took into account the philosophy of the BJP, which was the ruling party in those states, its manifesto on the basis of which the party had won elections in those states, the open support which the party and even persons in government gave to the demolition of the Babri mosque, the reluctance of the governments to act against organisations, like the Rashtriya Swayamsevak Sangh (RSS) which had been declared illegal, to come to the conclusion that the President's satisfaction that the governments in those states did not function in accordance with the Constitution had enough substance. Therefore, those actions were held to be valid. Secularism, according to the judges was part of the basic structure of the Constitution and, therefore, if a state government could not sustain secularism, it could not function in accordance with the Constitution. The view that secularism was part of the basic structure of the Constitution was shared by all the nine judges unanimously.

What does secularism mean? In the past, the Supreme Court has not given correct interpretation of what is meant by secularism. In *Saifuddin Saheb v. State of Bombay* [AIR, 1962, SC, p. 853], the Supreme Court had held that the Bombay Prevention of Ex-communication Act, which prohibited the act of ex-communication on religious grounds, was unconstitutional and void as it imposed impermissible restrictions on freedom of a religious denomination to manage its affairs in matters of religion. Here the Court gave greater importance to the right of a religious denomination than to the right of an individual to freedom of religion and personal liberty. The act of ex-communication by the religious head of the Dawoodi Bohra community had demoralising effect on a dissenting Bohra. The Court obviously held that ex-communication was an essential aspect of religion and, therefore, was protected against the individual's right to dissent. This decision was severely criticised by legal scholars [Tripathi, 1966, p. 1; Sathe, 1991, p. 39]. More recently, the Court rejected the challenge to the constitutional validity of Clauses (3) and (3A) of the Representation of the People's Act which provided that appeal to religion for canvassing votes in an election was a corrupt practice and ultimately its use made the election void. It was argued on behalf of Subhash Desai, a Shiv Sena member of the Legislature, that freedom of religion guaranteed by Article 25 of the Constitution permitted him to make such an appeal and the impugned sub-sections which restricted his freedom were unconstitutional. The Court held that if a person wanted to stand for election, he must abide by the election law and could not bring in his right to freedom of religion. This writer has expressed the opinion that the above reasoning is faulty. Fundamental rights are available to a person in all his capacities and, if the election law curbs a fundamental right, that law must be held to be unconstitutional and void. The impugned sub-sections however, could survive such a challenge if proper scope of freedom of religion in a secular state is defined. Freedom of religion is in respect of matters which are essentially religious. Since election to a legislature is not a matter of religion, the question of freedom of religion does not arise. This shows that the judges

do not have a clear conception of what secularism means. In *Manohar Joshi v. Nitin Patil* [SCC, 1996, Vol. 1, p. 169], *Ramesh Prabhu v. Prabhakar Kunte* [SCC, 1996, Vol. 1, p. 130], and *Ramachandra Kapse v. Haribansh Singh* [SCC, 1996, Vol. 1, p. 206] the Court went to the extent of saying that *Hindutva* was not communal or sectarian but was broad enough to include Indianness and, therefore, seeking votes in an election on the ground of *Hindutva* did not amount to appealing to the electorate on the ground of religion. In *Ismail Faruqui v. India* [SCC, 1994, Vol. 6, p. 361], the Court by majority upheld the validity of the Acquisition of Certain Area at Ayodhya Act, 1993 which gave freedom to Hindus to continue to pray on the disputed land after the demolition of the Babri mosque but prohibited Muslims from doing so. The Court justified it on the ground that the Muslims had not been praying in the demolished mosque since 1949. But why were Muslims not praying? They stopped praying only after the Hindus raised a bogey that an image of Lord Rama appeared on its own in the site which they claimed as the birth place of Lord Rama. The dissenting view expressed by Justice Bharucha (with whom Justice Ahmadi agreed) is more in consonance with the concept of secularism [Sathe, 1994, Pp. 99, 117]. The judicial view of secularism was also reflected in a High Court decision. In *Atheist Society of India v. Government of Andhra Pradesh* [AIR, 1992, A.P. p. 310], the petitioners had prayed for a writ of *mandamus* directing the state government to prohibit the practice of performance of religious worship or other religious rituals such as breaking of coconuts at the state functions. While rejecting this contention, the Court said [AIR, 1992, A.P. p. 317]:

There is no constitutional guarantee to the faith of the atheists who worship the barren reason that there is no God, and that they cannot seek to enforce such a non-existing right by preventing the believers, in invoking the blessings of the God (sic).



The Constitution gives the right to freedom of religion which must include the right not to believe in any religion. The atheists also have a right to be atheists. Not to believe in God is part of the right to freedom of thought, which is included in freedom of speech and expression. A secular state is not only neutral between various religions but has to be neutral between believers and non believers of religion. While an individual has freedom to practise, profess and propagate religion, the State has no such right because the State is not supposed to have any religion [Sathe, 1992, Pp. 9, 24]. Performance of religious rituals in government functions is certainly against the concept of secular state. Whether the Court should mandate the State not to do such rituals is a different question. The Court could very well avoid doing so on the ground that it is not a justiciable matter. We have mentioned this here because, if not being secular is a ground for being dismissed under Article 356, the Court should clarify what it means by being secular. The Court's decisional law on this subject is not free from ambiguity.

A perusal of the Court's decisions regarding those six states clearly shows that a decision whether action under Article 356 was proper was judged not by legal parameters but by political parameters. When judges use political parameters, such parameters have to be neutral and non-partisan. Political parameters of the Court have to be more objective and impartial than the political parameters of the Executive. Likewise, the President of India also has to apply political parameters while considering the advice of the Council of Ministers to dismiss a government. Twice in recent years, the President has asked the Council of Ministers to reconsider the advice given by it to dismiss a state government, once in Uttar Pradesh and, more recently, in Bihar. Such decisions are also taken by the President by applying political parameters. Political parameters applied by the President are similar to those applied by the Court because they are applied by an independent authority who is supposed to oversee the act of the Executive (Council of Ministers) objectively from the standpoint of justice.

*Bommai* gave power to the Court to prevent the manifest abuse of Article 356. The evidence of such power was revealed in a case in which the Allahabad High Court intervened to prevent abuse of power by the Governor in 1997. In Uttar Pradesh, an understanding had been reached between the Bahujan Samaj Party (BSP) and the BJP about sharing the chief ministership. Mayavati, the leader of the BSP remained Chief Minister for six months and then, according to the understanding between the two parties, Kalyan Singh of BJP was sworn in as Chief Minister. BSP, however, withdrew support of the government soon thereafter. The Governor asked Kalyan Singh to prove his majority which he did on October 21, 1997 with the help of a break-away group of 22 members of the Legislative Assembly from the Congress, which named itself as 'Loktantrik Congress' and another break-away group from BSP which called itself Loktantrik BSP. Subsequently, the Governor received a letter from 12 members of Loktantrik Congress that they were withdrawing support of the Kalyan Singh government. The Governor made inquiries and on being satisfied that Kalyan Singh had lost the support of the House and the Loktantrik leader Jagdambika Pal was in a position to obtain the support of the majority, dismissed Kalyan Singh and appointed Jagdambika Pal as Chief Minister. Kalyan Singh, after failing to persuade the Governor not to take such a decision, approached the Allahabad High Court which stayed the order of the Governor dismissing Kalyan Singh and appointing Pal as Chief Minister. The *status quo* was ordered to be maintained. Pal appealed to the Supreme Court, which sustained the decision of the Allahabad High Court and ordered that the test as to who enjoyed the majority support in the House be taken on the floor of the House on the very day on which such support was to be obtained by Pal as per the Governor's order. A new phenomenon of a composite vote of confidence was introduced through judicial process [Singh, 1998, p. 23] (Singh is Additional Advocate General of Uttar Pradesh).

*Bommai* has doubtless restrained the political parties from making partisan use of Article 356. It has had another effect. The President of India who until recently, as a rule, signed the order advised by the Council of Ministers started asking questions and even returned the advice for the dismissal of the state governments, once in Uttar Pradesh and again in Bihar. Another reason for the restrained use of Article 356 is the emergence of the coalitional politics. It may not be easy to get a Proclamation approved by both Houses of Parliament. Every ally of the present ruling coalition wanted dismissal of the state government of the state to which it belonged. It bargained its support on the condition of such unconstitutional use of Article 356. The major partner of the coalition, namely, the BJP could not oblige its partners because of the *Bommai* decision. The activist President and the activist Supreme Court have imposed constraints on the use of Article 356. One may criticise the Court for acting politically in *Bommai* but one cannot deny that the Court's politics has helped the political politics to become more principled and democratic. Recently when the Union cabinet advised the President to dismiss the Rabdi Devi government in Bihar, it took care not to recommend the dissolution of the Legislative Assembly and the Home Minister quoted *Bommai* in support of such decision.

The dilemma of the Indian judges is that they have to take political decisions while denying that they do so. The decisions regarding the basic structure of the Constitution as well as regarding the validity of the Presidential actions under Article 356 are doubtless political. The declaration in *Bommai* that secularism was part of the basic structure of the Constitution was doubtless made with a view to forewarning the majoritarian forces against undertaking any amendment of the Constitution which eroded secularism. The decision in *Bommai* has infused greater objectivity in the use of Article 356. Judicial review of the political decisions of the President by the Court is bound to produce political decisions. Such judicial review will have to take into account the political realities and must appear to be politically neutral *vis-a-vis* political parties.

Political decisions of the Court have to be different from the political decisions of the government or Parliament.

The Indian bar and the judiciary will have to free themselves from the colonial hang-over against being political. The word 'political' has acquired pejorative connotation all over the world. Yet democracy is politics and the Court as upholder of democracy has to evaluate and judge political decisions of the co-ordinate organs of government. We find that sometimes the judges do recognise this. For example, in *Indra Sawney v. India*, Justice Sawant said [ATC, 1992, p. 670, para 398]:

Constitution being essentially a political document, has to be interpreted to meet the 'felt necessities of the time'. To interpret it ignoring the social, political, economic and cultural realities, is to interpret it not as a vibrant document alive to the social situation but as an immutable cold letter of law unconcerned with the realities.

Political decision making by the Court must be distinguished from the politics of the judiciary, which is not absent. The common people also must not imagine that judges are super humans. The reality is that they also have the feet of clay. There is politics in appointment of judges, even when the power of making such appointments has been given to the judges. Often we hear about resignations of judges on account of their not being elevated to the Supreme Court and some one else having been preferred for such elevation. Recently, we came across an attempt by a Chief Justice to pack the court with his men, to frustrate which the President had to refer the question of appointment of judges for the advisory opinion of the Supreme Court [Dhavan, 1998]. It is not to such politics within the judiciary that we are referring to. We are referring to political decisions which are made by the Court while considering the validity of the acts of Parliament or the President. Such politics of the Court is not the same thing as political decision-making by the Court. The political decisions of the Court will

have to be informed by the philosophy of individual liberty, social justice, equality and democracy.

Judicial activism has to be distinguished from judicial populism and judicial excessivism. We have pointed out how the Court has encroached upon the sphere allotted to the Legislature while correcting the distortions in the functioning of the constitutional processes, and how the Court has made populist declarations of rights such as right to education. If judges are going to evaluate political decisions, they must be equipped with the knowledge and skills required for that purpose. Judicial activism requires a delicate combination of discretion, tact and vision. The Court must know its institutional limitations and must have a full understanding of the resources that it can utilise for enforcing its decisions. The Supreme Court of India has at times overreached itself and has also indulged in populism. In spite of this, it continues to be in a commanding position as a constitutional authority. People as well as the political establishment have acquiesced in the expanded functions of the Court, sometimes reluctantly and sometimes because there was no better alternative. But the Court has to continuously sustain the legitimacy of its power and its decisions. Although the Court is a political institution in so far as it determines the limits of power of various governing institutions, the legitimacy of its own power depends upon its image as politically neutral and independent adjudicator. For this it must appear to be a real defender of the people and their rights. The technology of public interest litigation (PIL), which the Court has adopted has doubtless helped the court to acquire such social and political legitimacy. There are, however, dangers involved in PIL also. A court can easily fall prey to the temptation of being self-righteous and also can be led to the garden path of populism and adventurism.

## NOTES

1. The Constitution (Forty-Third Amendment) Act, 1977 and the Constitution (Forty-Fourth Amendment) Act, 1978 repealed most of the objectionable provisions inserted by the Constitution (Forty-Second Amendment) Act, 1976. See Sathe, 1989, Appendix Pp. 170-71.

2. In *Kedar Nath v. Bihar* [AIR 1962 SC 955], Section 124-A of the IPC, which punishes the offence of sedition was held to be a reasonable restriction on freedom of speech and expression. In *Ranjit Udeshi v. Maharashtra* [AIR 1965 SC 881], Section 292 of the IPC, which punishes the offence of obscenity was held to be a reasonable restriction on freedom of speech and expression.

3. Clause (f) of Article 19(1) was deleted by Section 2 of the Constitution (Forty-Fourth Amendment) Act, 1978.

4. Clause (2) of Article 6 of the International Covenant on Civil and Political Rights.

5. Justice Fatima Beevi was the first lady judge appointed on the Supreme Court on October 6, 1989. Justice Sujata Manohar was appointed on November 8, 1994. She is the only lady judge on the Supreme Court at present.

## ABBREVIATIONS

A.C.	<i>Appeal Cases</i>
A.P.	Andhra Pradesh High Court
AIR	<i>All India Reporter</i>
ATC	<i>Administrative Tribunal Cases</i>
C.A.	Civil Appeals
Cal.	Calcutta High Court
Co. Rep.	<i>Coke's Reports</i>
G.L.R.	<i>Gujarat Law Reporter</i>
H.C.	High Court
I.L.R.	<i>Indian Law Reports</i>
JT	<i>Judgments Today</i>
K.B.	<i>Law Reports of the House of Lords, King's Bench</i>
L.Ed.	<i>United States Supreme Court Reports, Lawyers' Edition</i>
L.R.	<i>Law Reports</i>
Ori	Orissa High Court
PLD	<i>All Pakistan Legal Decisions Journal</i>
Patna	Patna High Court
SC	Supreme Court
SCC	<i>Supreme Court Cases</i>
Supp	Supplement
U.S.	<i>United States Supreme Court Reports</i>

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# CAPITAL INFLOWS TO THE INDIAN ECONOMY: CAUSES AND CONSEQUENCES

Pushpa Trivedi

*India has relied on capital inflows for financing current account deficits and for growth-promotion. The composition of capital inflows has undergone a major change during the period of the study. External assistance which was a major component of capital inflows has been replaced by external commercial borrowings, deposits of the non-resident Indians and by other forms of capital. This change implies that capital will come to India on market-dictated terms rather than as soft loans. Recent inflows of capital to India can be attributed both to the internal as well as external factors. Indicators of monetary, fiscal and external sectors did give signals of credibility to the foreigners. Declining interest rates and recessionary conditions in the industrial countries can partly explain the capital inflows to the developing countries as also to India. The empirical evidence suggests that volatility in current account can explain the fluctuations in capital inflows and that fluctuations in the components of capital flows (except external assistance) have been, by and large, higher than the fluctuations in total capital flows, implying thereby, substitution between the various components of capital inflows. The Reserve Bank of India has resorted to both intervention in foreign exchange market so as to avoid appreciation of the rupee needed for promotion of exports and also to sterilisation for the sake of monitoring the inflationary impact of capital inflows. This can be regarded as one of the reasons for a substantial jump in increase in debt-stock of the central government. Given the hardening of interest rates abroad, revival of growth in industrial countries, political uncertainty and weak fiscal management in the Indian economy, we should realise that this task is not an easy one. Even if we are able to invite capital flows which may come due to external reasons alone, the monetary policy will have to grapple with the problem of capital flows so as to retain international competitiveness of India's exports and to contain inflation.*

## 1. INTRODUCTION

Several developing countries experimenting with stabilisation and structural reforms have recently witnessed surges in capital inflows.<sup>1</sup> The first stage in the path towards a sustained growth process requires ensuring macroeconomic stability, i.e., the management of exchange rate and capital inflows in a manner which will tame inflation and provide the basis for growth of output [Rao and Nallari, 1996, p. 8]. Of late, the Indian policy-makers have been explicitly emphatic about the need to invite foreign capital in order to augment the productive capacity of the economy.<sup>2</sup> Capital inflows can be attributed to three main causes. These are: (i) changes in fundamentals (such as, changes in real economic conditions and increase in interest rates in the recipient economy, widening of current account deficits, etc.); (ii) recession and lower interest rates in the rest of the world; and, (iii) the

bandwagon effects. Capital inflows needed for financing current account deficits have been regarded as endogenous from the point of view of the domestic economy, whereas, those caused by the external environment have been regarded as exogenous [Classens, et al., 1995, Pp. 155-56]. If capital inflows are endogenous in nature, policies aimed at sustainable current account deficits are required, whereas, in the case of exogenous capital inflows the challenge to the policy-makers lies in managing them in a non-inflationary manner.

Though there has been an euphoria in India about the inflows of capital, it has been widely recognised in the literature that these inflows are not an unmixed blessing. These inflows can also cause overheating of the economy. The signals of overheating may take the forms of widening of

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current account deficits, financing of consumption by the inflows, weaker monetary control and the resultant inflation, boom in prices of real estate and financial assets, appreciation of nominal and real exchange rates, etc. Besides, there could also be a threat of reversal of capital inflows. It may not be incorrect, therefore, to link the threat of reversal of capital flows to the causes of capital flows. If capital flows are caused by the external environment and bandwagon effects, then the recipient country has less control over the reversal of capital inflows than in a situation in which these inflows are caused by better real economic environment and a tight monetary policy pursued at home.

Capital inflows in excess of current account deficits find their way into the financial system and influence money supply. Central banks, therefore, have to grapple with the problem of excess liquidity and appreciation of nominal and real exchange rates. In order to keep exports competitive and tame inflation, central banks are faced with the following dilemmas. First is whether to intervene in the foreign exchange market or not. If they decide to intervene then the second dilemma is whether to resort to sterilisation operations or not, and if the former is the case then the third choice which has to be made is regarding the policy measures to be used. Policy responses of the central banks may differ depending on their current account positions. Countries experimenting with stabilisation and structural adjustment programmes (SSAP), i.e., countries with weak current account positions are likely to intervene in the foreign exchange market so as to avoid appreciation of the domestic currency. Since this adds to the foreign assets of the central bank, expansion of high-powered money and money supply takes place. This can compel central banks to conduct sterilisation operations so as to tame inflation. Sterilisation operations viewed broadly, leave the stock of aggregate money supply unchanged. The narrow view of sterilisation includes only those policy actions which do not allow the monetary base to change and this can be achieved through open market sales of Treasury bills and government securities [Frankel, 1993, p. 5]. Lee has referred to the latter

form of sterilisation as the classical form of sterilisation [Lee, 1997, p. 1]. He has also listed the less conventional supplementary measures which are combined with the classical form of sterilisation, a part of 'belts and braces' strategy or broad sterilisation measures. Included in this strategy are the measures, such as tightening the access of banks at the discount window, increasing reserve requirements, placement of government deposits with the central bank rather than with commercial banks, and the use of forward foreign exchange swap contracts by the central bank. These measures are expected to reduce money supply with the public as is the case with the open market sales.

A number of studies have been undertaken on the problems of volatility and sterilisation of capital inflows for the Latin American and East Asian countries. As mentioned earlier, besides posing a challenge to the efficacy and independence of monetary policy, capital inflows can be fickle in nature. Classens, et al., [1995, Pp. 153-74] have investigated the variability, persistence and predictability of capital inflows. They conclude that the conventional view, i.e., short-term capital flows are more volatile (and hence, prone to reversal) than the long-term flows is not supported by the empirical evidence. As regards the persistence, their finding is that the time taken by an unexpected shock to die out is similar across the different categories of capital flows. Further, they demonstrate that the short-term capital flows are at least as predictable as the long-term capital flows. In view of these findings, they do not find any rationale for implementing discriminatory policies (grounded in the conventional view) for different kinds of capital flows. Though the statistical properties may not warrant any distinction across different forms of capital inflows, it would be improper to ignore the economic implications of the different types of capital flows. Irrespective of the similar time-series properties of equity and debt capital, features such as risk-sharing and pro-cyclical outflows<sup>3</sup> do make the former as a preferred form of capital over the latter. The empirical evidence has not been conclusive on the efficacy of sterilisation measures. On the one hand, G. Calvo



[1991, Pp. 921-26; 1993, Pp. 108-51] has argued that sterilisation perpetuates a high domestic-foreign interest differential and adds to the fiscal burden. H. Reisen [1993], on the other, has put forth a case for sterilised intervention based on the South-East Asian experiences and regards that sterilisation is easier than the conventional view has it.<sup>4</sup>

The objectives of this paper are three-fold. These are: (i) to investigate the causes of capital inflows to India; (ii) to examine the volatility of capital inflows and the substitution between the different forms of capital inflows to India; and (iii) to assess the consequences of capital inflows for the conduct of exchange rate, and for monetary and fiscal policies in India. As a prelude to the discussion on the above-mentioned issues, the paper also provides the factual information about the size and the composition of capital inflows to the Indian economy from 1970 to 1995. The organisation of the study is as follows. Section 2 deals with the various forms of capital inflows in the Indian context. In Section 3, we discuss economic reforms deemed to be relevant from the point of view of inviting capital inflows to the Indian economy. Section 4 deals with the financing of the current account and the composition of capital inflows to India. Section 5 deliberates on the causes of capital inflows. In Section 6, we discuss the volatility of capital flows to India. Section 7 deals with the policy response to capital flows in India during the nineties. Lastly, Section 8 presents the concluding observations. The data used in the study spans over the period, from 1970-71 to 1995-96. However, the study focuses on the capital inflow episode of the nineties.

## 2. FORMS OF CAPITAL INFLOWS TO INDIA

Current account deficits can be financed by a combination of inflows of capital (which can be in the form of equity capital and/or debt) and by running down the foreign exchange reserves. Further, the debt-creating capital inflows can be sub-divided into external assistance (EA), external commercial borrowings (ECB), purchases

from the International Monetary Fund (IMFP), deposits of the Non-Resident Indians (NRID) and portfolio investment in debt instruments (PDI). Equity capital from the rest of the world can take forms of foreign direct investment (FDI) and portfolio equity investment (PEI). As the terms and conditions under which different forms of debt-creating flows are received differ widely, the composition of debt-creating flows can determine the conduct of macroeconomic policies. Flows, such as external assistance and purchases from the IMF, come with concessional interest rates. Easy availability of capital can result in a complacent attitude of the policy makers regarding the growing current account deficits. Though these inflows may involve a lower interest burden than on the other types of debt (such as, commercial borrowings and NRI deposits), recourse to concessional inflows usually involves an element of conditionality in terms of the conduct of macroeconomic policies. Supply of external commercial borrowings and NRI deposits are expected to depend on the factors such as, differences between the domestic and international interest rates, expected depreciation of the domestic currency *vis-a-vis* the different major currencies, political stability, etc. These inflows can be expected to flow into an economy only at market governed rates of interests. A comparison of the interest rates on different debt-creating inflows is provided in Table 1.

It can be seen from Table 1 that the interest rates on EA have been much lower than the interest rates on other debt-creating flows. Interest rates on Foreign Currency (Non-Resident) (FCNR) dollar deposits have been aligned with the London Inter Bank Office Rates (LIBOR) rate on \$ deposits, after 1985. During the eighties the effective interest rates on Non-Resident (External) Rupee (NRER) deposits (i.e., after subtracting depreciation of the rupee from interest rates) have been quite moderate as compared with the interest rate on FCNR deposits.

Table 1. Interest Rates Applicable on Different Debt-creating Capital Flows

(per cent per annum)

Year (1)	EAI (2)	ECBUSi (3)	ECBJi (4)	ECBGi (5)	FCNRUSi (6)	FCNRUKi (7)	NRERi* (8)
1976	n.a.	6.80	7.00	4.50	9.00	9.00	10.8
1977	1.97	6.00	5.70	4.00	n.a.	n.a.	n.a.
1978	2.11	10.30	4.40	4.60	7.50	7.50	8.2
1979	2.28	12.70	6.50	7.50	7.50	7.50	7.9
1980	2.07	14.40	10.90	9.60	7.50	7.50	6.9
1981	2.05	17.10	7.90	12.80	10.00	10.00	-1.8
1982	2.07	14.70	7.10	9.70	12.00	12.00	5.0
1983	2.10	11.20	6.60	6.70	12.00	12.00	5.1
1984	1.96	12.80	6.50	7.10	12.00	12.00	-4.5
1985	2.04	10.10	6.60	6.50	10.50	10.50	7.2
1986	2.39	8.00	5.00	5.60	9.00	9.00	7.0
1987	2.68	8.60	4.30	5.20	9.50	9.50	11.6
1988	2.66	9.40	4.60	5.50	11.30	12.00	-4.3
1989	3.45	10.30	5.50	8.20	10.30	12.00	2.6
1990	3.44	9.50	7.80	9.80	9.00	13.30	1.2

Notes: 1. Notations used in Table 1 are as follows.

EAI Interest rate applicable on EA.

ECBUSi Interest rate applicable on US \$ denominated ECB.

ECBJi Interest rate applicable on Japanese Yen denominated ECB.

ECBGi Interest rate applicable on Deutsch Mark denominated ECB.

FCNRUSi Interest rate applicable on US \$ denominated Foreign Currency (Non-Resident) Rupee deposits.

FCNRUKi Interest rate applicable on Sterling denominated FCNR deposits.

NRERi\* Interest rate applicable on the Non-Resident (External) Rupee deposits; \* signifies adjustment for exchange rate variations.

2. ECBUSi, ECBJi, AND ECBGi accounted for 62.2, 16.9 and 7.5 per cent of total ECB, as of end March, 1986. The respective figures for 1992 were 52.8, 24.9 and 10.3 per cent for March end, 1992.

3. Financial year 1976-77 is referred to as 1976. The same practice has been adopted for other years as well, in order to economise space in tables. Retaining the consistency in notation requires the use of same practice in the text as well.

Source: *International Financial Statistics*, (various issues) International Monetary Fund, Washington D.C. These rates include one per cent margin over the London Inter Bank Offer Rates (LIBOR).

## 3. ECONOMIC REFORMS IN INDIA

Based on the development experiences of the various countries, there seems to have developed a consensus on the content of economic reforms. Therefore, of late the content of adjustment programmes is not as much debated as the intensity, timing and the sequencing of reforms. The bone of contention now is whether the reforms should be implemented in a gradually sequenced manner (also referred to as the 'cold-turkey' approach) or simultaneously in an intense manner. A less contentious view on the sequencing of the reforms is that the domestic real sector liberalisation should precede domestic financial sector liberalisation. These should be followed by the trade liberalisation. External financial liberalisation which has a direct bearing on capital inflows should be the concluding part of the reform process. This sequencing of reforms is presented in Chart 1.

Economic reforms in India have followed a gradualist approach. The intensity and speed of reforms have not been very even and smooth. The crisis of 1990-91 made it imperative to launch reforms both in domestic and external real sectors simultaneously. A spate of monetary, fiscal, trade and industrial sector reforms were initiated in July 1991 [Trivedi, 1992, Pp. 58-87]. The recommendations of Narasimham Committee [Government of India, 1991] set the agenda for the financial sector reforms in India.<sup>5</sup> Liberalisation of foreign exchange rules for both current account and capital account (mainly inward capital flows) began in 1991-92. Though we are far off from the capital account convertibility, relaxation of norms for FDI, permitting the Foreign Institutional Investors (FIIs) to trade in primary and secondary equity markets, the recent assurance of the opening up of gilt-edged markets for FIIs, etc., are measures in this direction. Thus, in India real

sector reforms and financial sector reforms (both in the arena of domestic and external sectors) have been introduced in a simultaneous manner. The external sector financial reforms are yet to be implemented in a comprehensive manner. In the next section, we examine the movements in current account deficits and the capital inflows to the Indian economy. We have also included pre-reform period so as to compare this period with the reform period, 1990-95.

Chart 1. Sequencing of Economic Reforms

	Domestic	External
	# 1	# 3
Real	* Setting up of a market-price system * Removal of subsidy * Tax base widening * Privatisation	* Removal of trade barriers (current account), i.e., trade account convertibility
	# 2	# 4
Financial	* Raising domestic interest rates * Central Bank autonomy * Improving domestic capital markets	* Removal of capital controls, i.e., short-term capital account convertibility

Source: M.J.M. Rao and Raj Nallari, 1996, p. 257.

#### 4. FINANCING OF CURRENT ACCOUNT DEFICITS IN INDIA: 1970 TO 1995

In this section, we first present the movements in the current account deficits and capital inflows to the Indian economy. Thereafter, we present the financing pattern of current account deficits and the composition of capital inflows to India. It may be mentioned at the outset that the political factors are no less important than the economic determinants of capital inflows. Stable governments and credibility of economic reforms play a major role in directing capital flows to different countries.

Current account deficits in India have displayed wide fluctuations over the period 1970 to 1995. Figure 1A depicts the absolute levels of balance of trade (BOT), current account balance (CAB) and capital inflows (CAP) in billion US \$. Figure 1B depicts BOT, CAB and CAP as a percentage of gross domestic product at current market prices (henceforth, GDPm). These variables have been denoted by BOTY, CABY and CAPY. It can be seen from Figure 1A that CAB deteriorated more or less steadily during the seventies and the eighties, except for 1976 and 1977. Current account balance had reached a trough of about US \$ 9.7 billion in 1990. Capital flows, by and large, matched the magnitudes of Current Account

Deficits (CAD, i.e., negative of CAB) until the eighties. Of course, CAD were also partly financed by running down of foreign exchange reserves, depending on India's foreign exchange reserve position. It may be noted that though the peak in CAD occurred in 1990, the peak in CAP was observed in 1993 (i.e., at a level of about US \$ 10 billion). During the next year as well, CAP were at a rather high level of US \$ 7.7 billion as compared with a CAP of only about US \$ 2.7 billion in 1995. A similar peak and trough pattern can be observed in CABY and CAPY in Figure 1B, confirming that the movements in CAB and CAP in absolute terms were similar to those observed in relation to GDPm. Until 1990, CAD and CAP display the co-movements and after 1990 the movements in CAP seem to be rather large in comparison to the CAD. In view of this, it would be interesting to examine the hypotheses that CAD caused CAP in the pre-1990 period and that CAP is a causal factor explaining CAD in the post-1990 period, so as to throw some light on the issue of endogeneity/exogeneity of CAP. However, due to inadequate number of observations for carrying out formal causality tests, we have refrained from doing it. In the next sub-section we provide the details of changes in the financing pattern of the current account deficits (and the composition of capital inflows).

Figure 1A. Balance of Trade, Current Account Balance and Capital Inflows in India

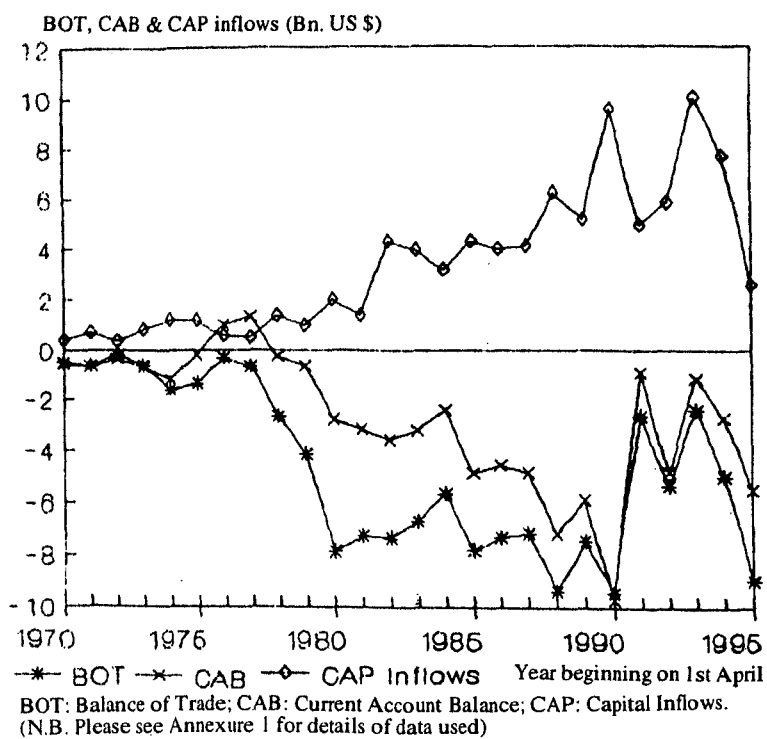
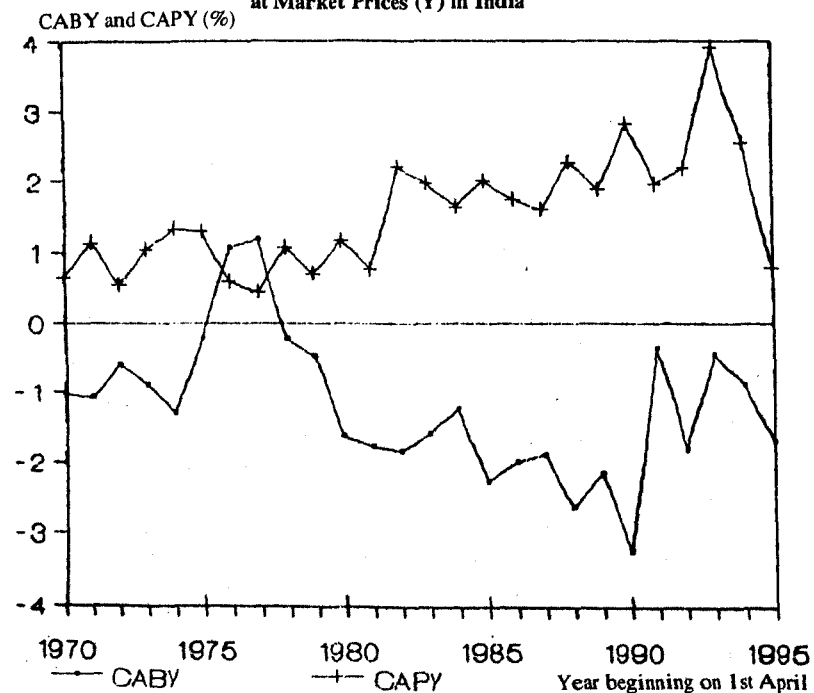


Figure 1B. Current Account Balance (CAB) and Capital Inflows (CAP) as a per cent of GDP at Market Prices (Y) in India



CABY and CAPY are CAB and CAP as a per cent of Gross Domestic Product at Current Market Prices(Y), respectively.  
(N.B. Please see Annexure 2 for details of data used)

#### 4.1 Current Account Deficits and Composition of Capital Inflows to India

Figure 2 provides a synoptic view of the composition of capital inflows in India during 1975 to 1995. The classification of the various forms of capital has been dictated by the availability of the time-series data on the various capital inflows. We have excluded the period 1970-74 in Figure

2, as one of the important sources of capital inflows, viz., NRI deposits (NRID) facility was introduced only in the mid-seventies. In Table 2, we highlight the major changes in the composition of capital inflows and the pattern of financing of the current account deficit in the Indian economy during the quinquennia starting from 1970 to 1989, in 1990, and during the quinquennium 1991 to 1995.

**Table 2. Financing of Current Account Deficits in India**

(Average in million US \$, Rest in percentages)

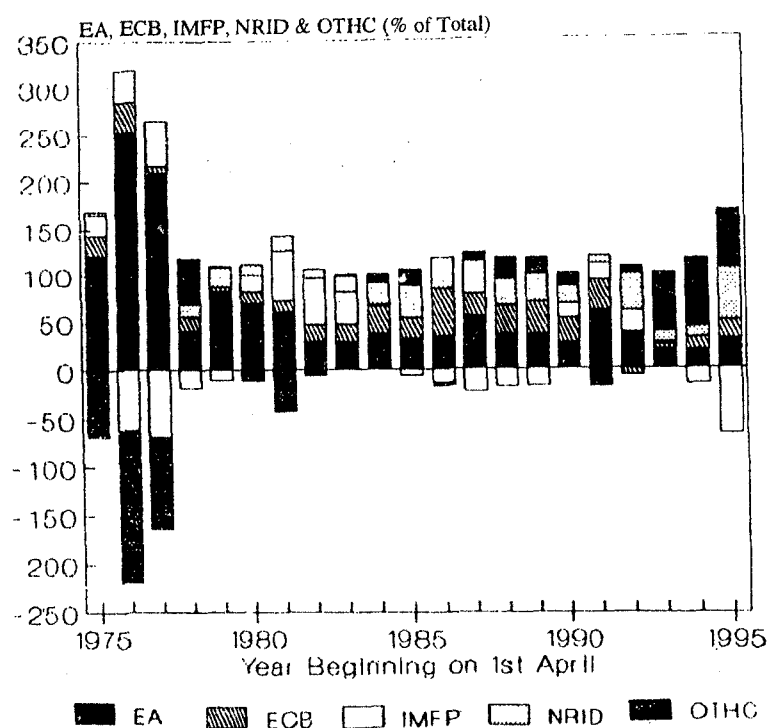
Year (1)	CAD (2)	EA (3)	ECB (4)	IMFP (5)	NRID (6)	SDR (7)	dFER (8)	OTHC (9)	CAP (10)
1970-74									
Average	712.3	699.6	78.3	96.6	0.0	39.9	-16.6	-185.5	688.9
% of CAD		98.2	11.0	13.6	0.0	5.6	-2.3	-26.0	96.7
% of CAP		101.5	11.4	14.0	0.0	5.8	-2.4	-26.9	100.0
1975-79									
Average	-230.7	1,040.5	148.5	-153.9	169.6	60.6	1,197.6	-298.4	906.3
% of CAD		-451.1	-64.4	66.7	-73.5	-26.3	519.2	129.4	-392.9
% of CAP		114.8	16.4	-17.0	18.7	6.7	132.1	-32.9	100.0
1980-84									
Average	3,042.1	1,161.5	582.5	896.5	460.7	30.0	50.7	-139.7	2,961.4
% of CAD		38.2	19.1	29.5	15.1	1.0	1.7	-4.6	97.3
% of CAP		39.2	19.7	30.3	15.6	1.0	1.7	-4.7	100.0
1985-89									
Average	5,473.9	1,825.1	1,513.1	-723.8	1,464.4	0.0	725.6	669.5	4,748.2
% of CAD		33.3	27.6	-13.2	26.8	0.0	13.3	12.2	86.7
% of CAP		38.4	31.9	-15.2	30.8	0.0	15.3	14.1	100.0
1990									
(m US \$)	9,676.6	2,209.1	2,248.1	1,213.5	1,535.5	0.0	1,277.5	1,192.9	8,399.1
% of CAD		22.8	23.2	12.5	15.9	0.0	13.2	12.3	86.8
% of CAP		26.3	26.8	14.4	18.3	0.0	15.2	14.2	100.0
1991-95									
Average	3,020.3	1,862.0	660.5	-110.3	1,227.7	0.0	-3,177.9	2,558.2	6,198.2
% of CAD		61.6	21.9	-3.7	40.6	0.0	-105.2	84.7	205.2
% of CAP		30.0	10.7	-1.8	19.8	0.0	-51.3	41.3	100.0

**Notes:**

- CAD Current Account Deficit (positive and negative figures indicate deficit and surplus, respectively).  
 EA External Assistance  
 ECB External Commercial Borrowings  
 IMFP Purchases from the IMF  
 NRID NRI deposits  
 SDR Special Drawing Rights  
 dFER Movement in foreign exchange reserves (positive and negative signs indicate decrease and increase, respectively).  
 OTHC Other capital inflows including errors and omissions.  
 CAP Net capital inflows including IMF purchases and excluding SDR allocations (positive and negative signs indicate inflows and outflows, respectively).

Source: Compiled from the data provided in *Report on Currency and Finance (RCF)* and Reserve Bank of India (RBI) *Annual Reports*.

Figure 2. Composition of Capital Inflows (As a per cent of Total Capital Inflows)



EA: External Assistance; ECB: External Commercial Borrowings; IMFP: Purchases from IMF; NRID: NRI Deposits; OTHC: Other Capital.

(N.B. Please see Annexure 3 for details of data used)

#### 4.1.1 Financing Pattern of CAD: 1970-74

Financing of the current account deficits (CADs) in India shows distinct patterns during the sub-periods under investigation (refer Table 2). It can be seen from Table 2 that the average annual CAD during 1970-74 was US \$ 712.3 million. The average SDR allocation during the same period was US \$ 39.9 million and, therefore, the financing needs amounted to an annual average of US \$ 672.3 million. CAP as a percentage of the financing requirements exceeded by about 2.5 per cent and this resulted in an average annual increase in foreign exchange reserves to the tune of US \$ 16.6 million. CAP were marginally lower than the external assistance, due to the negative magnitude of other capital (OTHC). In brief, the EA accounted for about 98.2 per cent of CAD and, hence, was the preponderant component in financing the CAD

during this period. External Commercial Borrowings and IMF purchases (IMFP) put together, more or less, compensated for the negative magnitude of OTHC. It may be said that the capital inflows during this period were necessitated by current account deficit and, hence, endogenous in nature.

#### 4.1.2 Financing Pattern of CAD: 1974-79

Due to the current account surpluses in 1976 and 1977, India witnessed an annual average of current account surplus of about US \$ 230.7 million, during the quinquennium 1974-79. Added to this was the availability of SDRs by about US \$ 60.6 million per annum. Hence, there was no question of financing requirement. A comfortable current account position during this period was accompanied by external assistance (average US \$ 1,040.5 million, per annum) which



was even larger than the corresponding figure for the earlier half of the seventies (average US \$ 699.6 million per annum). Thus, India's balance of payments (BOPs) position during the period 1974-79 was marked by the current account surplus coupled with sizeable capital inflows. This naturally resulted in huge accumulation of foreign exchange reserves during this period (average of US \$ 1,197.6 million per annum).<sup>6</sup> Thus, during this period capital flows can be deemed to be of an exogenous nature.

#### *4.1.3 Financing Pattern of CAD: 1980-84*

Deterioration in India's BOPs had set in during the late seventies itself. During 1980-84, India again witnessed CADs of a much larger magnitude as compared with those for the period 1970-74. The annual average CAD was about US \$ 3,042.1 million and the financing requirement was about US \$ 3,012.1 million (due to an average availability of SDRs of about US \$ 30 million, per annum). About 98 per cent of the financing requirement was met by the inflow of capital and the residual requirement was met by the decline in foreign exchange reserves. However, unlike the period 1970-74, the average contribution of EA in financing CAD had come down drastically (i.e., from 98.2 per cent to 38.2 per cent). The ECB which had an annual average of about US \$ 73.8 million (1970-74), had increased to US \$ 582.5 million (1980-84). Moreover, the NRI deposits supported about 15.1 per cent finance for covering the CAD in 1980-84. In other words, NRID and ECB put together, accounted for about 11.4 and 35.3 per cent of financing support to CAD during 1970-74 and during 1980-84, respectively. IMF purchases (IMFP) too had gone up both in absolute terms (annual average US \$ 96.6 million to US \$ 896.5 million) as well as in terms of their relative contribution. This component provided about 30 per cent financing support to CAD. The average contribution of IMFP, ECB and NRID was barely one-fourth of the CAD, during 1970-74. It is pertinent to mention that the ECB and NRID do not involve any element of concessional interest rates. In brief, current account deficits necessitated capital inflows during the this period. However, the

composition of capital inflows during the period had undergone a drastic change as compared with that witnessed during the seventies.

#### *4.1.4 Financing Pattern of CAD: 1985-89*

Financing of CAD had become all the more problematic during the period 1985-89. The financing pattern during this period was similar to the one observed during 1980-84, with three exceptions. First, due to the repayment of IMF loans, there was a greater reliance on ECB and NRID during 1985-89. Second, the decline in foreign exchange reserves (dFER) was more pronounced after the mid-eighties. The average decline in foreign exchange reserves was US \$ 50 million and US \$ 725 million during 1980-84 and 1985-89, respectively. Lastly, other capital inflows which were negative since 1970, had become positive. OTHC, on an average, accounted for about 12.2 per cent support to financing CAD during 1985-89. To sum up, current account deficits again were the principal reason for capital inflows during this period.

#### *4.1.5 Financing Pattern of CAD: 1990*

The year 1990 was a critical year for the Indian economy and the CAD had peaked to about US \$ 9.7 billion in absolute terms and to about 3.2 per cent of GDPm. In order to finance this huge deficit, capital inflows turned out to be inadequate. The average proportion of EA in financing the CAD had registered a further decline to barely 22.8 per cent. Due to political instability resorting to even ECB had become difficult. In view of this, India had to fall back upon the borrowings from the IMF and run down its foreign exchange reserves by about US \$ 1,277.5 million within a year's time.

#### *4.1.6 Financing Pattern of CAD: 1991-95*

The average CAD came down drastically (as compared to 1990 level of about US \$ 9.7 billion) to an average of about US \$ 3.0 billion during 1991-95. Suppression of imports during 1991 were partly responsible for reducing the need for capital inflows. Nonetheless, the magnitudes of

CAD both in absolute terms as also in relation to GDPm have been lower after the 1990 crisis as compared to the crisis year. The financing pattern has changed after the crisis year. The absolute amount of average EA remained comparable with that witnessed for 1985-89 period, in fact, declined if compared with 1990. Despite the fact that the repayment of IMF loans resulted in outflow of capital, the average total capital inflows were almost double of the financing requirement, thereby leading to an average annual increase in foreign exchange reserves of about US \$ 3.2 billion during 1991-95. Other capital inflows accounted for as much as 84.6 per cent of current account deficit during this period.

Even within this item of other capital, the shares of foreign direct investment and portfolio investment have undergone a drastic change. In 1992, gross FDI and the portfolio investments (gross) amounted to barely US \$ 0.433 billion. These inflows ranged between US \$ 4.2 to 4.9 billion in the next three years. The composition of these flows changed drastically during these years (see Annexure 4). During 1993 and 1994, capital flew into India mainly in the form of portfolio investment, though in 1995, FDI has also been an important source of investment flows. A large proportion of FDI is accounted for by the US, UK, Germany, Singapore, and Hong Kong (see Annexure 5). In 1995, even though the portfolio investment has ebbed, FDI has increased. FDI has primarily gone into finance, engineering, electronic/electrical, chemicals, food and dairy products and the service sectors (see Annexure 6).

#### *4.1.7 Observations on Composition of Capital Inflows to India*

The following facts are noteworthy in the context of the recent trends in financing of CAD. First, CAD as a percentage of CAP have been about 103.4, -25.5, 102.7, 115.3, 115.3 and 48.7 during the six time-periods sequentially listed in Table 2. Thus, CAP have been substantially in excess of the financing need only during 1975-79 and 1991-95 periods. For the remaining periods, capital inflows seem to have been of endogenous

nature, i.e., warranted by the current account deficits. As mentioned earlier, these excess flows find their way into the monetary sector and have implications for the conduct of monetary, fiscal and exchange rate policies. The oil-price shock of the 1979-80, absorbed the potential effects of capital flows by preventing the accretion of foreign exchange reserves. As we are more concerned with the present situation and the problem of dealing with the recent capital inflows, our focus will be on the post-crisis situation. Second, OTHC has been positive since 1987 (with an exception of 1991). In fact this item, on an average, accounted for about 84.7 per cent support to the CADs during 1991-95. Moreover, in the recent years, the reliance on equity capital (*vis-à-vis* debt) has increased as compared to that in the past. Servicing of debt is more difficult than the payment of dividends on equities during the downswing of economic activity, as the latter payments are always pro-cyclical in nature, whereas, the former are not. Third, CAD have shown a tendency to increase and even though the gross capital flows have increased, the net capital flows have declined of late, i.e., in 1995 and there are fears that in a few years time, India's external sector situation may not be very different from what it has been in the past.

#### 5. CAUSES OF RECENT CAPITAL INFLOWS TO THE INDIAN ECONOMY

It is important to find the causes of capital inflows, in order to be able to assess the chances of their reversal. Needless to mention that after the 1990-91 crisis, a number of policy measures have been undertaken which can be regarded as conducive to the foreign participation in the Indian capital markets. Move towards a greater flexibility in exchange rate determination, trade liberalisation (i.e., reducing price and non-price barriers), virtual elimination of Foreign Exchange Regulation Act (FERA), 1973, allowing equity ownership to the Foreign Institutional Investors (FIIs), opening areas such as infrastructure for foreigners, etc., have resulted in a more competitive and market-friendly environment. The changed policy environment, therefore, can be regarded as one of the causes of capital inflows witnessed during the early nineties.

Another cause of capital inflows can be a tightening of monetary policy (increase in interest rates) in the domestic economy. We provide data on a few fundamentals in Table 3, to which the foreign capital may have responded. Capital started flowing into the Indian economy since 1993. We take the three-year period prior to this inflow episode (1990-92) and compare it with the three-year period prior to the crisis (1987-89). These data presented in Table 3 can be used for

assessing the credibility of economic policy, which followed the 1990-91 crisis. It needs to be noted that the credibility of economic reforms is an important factor for capital inflows.

It can be seen from Table 3 that the GFDY was brought down during the first three years of the stabilisation-cum-structural adjustment programme (SSAP) as compared to the average figure for 1987-89 period. NFARBI increased at

Table 3. Select Fundamentals of Indian Economy: 1987-94

(Per cent)							
Period (1)	GFDY (2)	NFARBI* (3)	DCC* (4)	RM* (5)	M3* (6)	g* (7)	gm* (8)
1987-89	8.9	9.9	21.2	20.1	17.7	7.3	8.4
1990-92	7.4	62.6	7.3	12.6	16.7	3.8	3.5
1993-95	7.2	57.2	11.5	20.7	18.0	6.8	9.6

Contd.

Table 3. Concl'd.

(Per cent)						
Period (1)	P* (9)	CADY (10)	EDTY (11)	DSR (12)	NER* (13)	RER* (14)
1987-89	8.1	2.2	26.5	30.7	-10.5	-5.4
1990-92	11.5	1.8	37.1	31.4	-18.9	-11.9
1993-95	9.3	0.8	32.4	26.7	-6.5	0.5

Notes:

GFDY : Gross Fiscal Deficit as a percent of GDPm.

NFARBI : Net Foreign Exchange Assets of the Reserve Bank of India (RBI).

DCC : Domestic Credit Component of the Reserve Money.

RM : Reserve Money.

M3 : Stock of Broad-Money.

g : GDP at Constant (1980-81) Prices.

gm : GDP of Manufacturing Sector at Constant (1980-81) Prices.

P : Consumer Price Index.

CADY : Current Account Deficit as a per cent of GDPm.

EDTY : External Debt Stock as a per cent of GDPm.

DSR : Debt-Service Ratio.

NER : Nominal Effective Exchange Rate Index (5 Countries).

RER : Real Effective Exchange Rate Index (5 Countries).

The negative (positive) signs before NER and RER indicate depreciation (appreciation) in these exchange rates.

Suffix\* indicates the Average Rate of Change in the Variable.

Sources: *Economic Survey*, (various issues) Ministry of Finance, Government of India, New Delhi.

*Report on Currency and Finance*, (various issues) Reserve Bank of India, Mumbai.

a rate of 62.6 per cent per annum during 1990-92 period. Purchases from the IMF were mainly responsible for this increase. The very fact that IMF was supporting the stabilisation programme must have acted as a factor enhancing the credibility of economic reforms. In view of such huge accretion to NFARBI, DCC was monitored and its rate of growth during the SSAP period was brought down from 21.2 to 7.3 per cent per annum. Rate of growth in RM was monitored

rather strictly and brought down from 20.1 to 12.6 per cent per annum. The same observation can be made about the rate of growth in M3, though the deceleration in growth of M3 was lower as compared with that in RM. In brief, the monetary sector was rather well guarded, despite increase in foreign exchange reserves. Growth during the pre-reform period was quite above the Hindu-rate of growth and, hence, it must have helped the perception that with a freer policy environment,

the Indian economy could take a higher growth-path. Inflation can be taken as an indicator of profit opportunities especially in the case of FDI enterprises. CAD as a percentage of GDPm also witnessed a decline from the pre-reform to SSAP period. In other words, indicators of monetary, fiscal and external sectors did give signals of credibility to the owners of foreign capital to invest in India. Hence, it is not unreasonable to conclude that capital has flown into India, at least in part, as a response to the improvement in fundamentals.

Capital flows can be regarded as exogenous if caused by factors external to the domestic economy. These factors can be decline in interest rates and recession in major industrial nations. These causes can result in increase in supply of capital to the developing countries and the domestic economy can receive capital inflows due to such a reason. Deposit interest rates in the UK fell from 12.81 (1990) to 3.68 per cent per annum (1993), in the US from 8.16 to 3.17, in Japan from 3.56 to 2.14, and in Germany from 7.07 to 6.27 per cent per annum. Rates of growth of the industrial countries had slackened during 1990-93 period. These were, 2.1, 0.5, 1.9 and 1.4 per cent per annum in 1990, 1991, 1992 and 1993, respectively. Annual capital flows to the developing countries were 57.6, 81.0, 127.8 and 191.2 billion US dollars in 1990, 1991, 1992 and in 1993. Thus, both the declining interest rates and recessionary conditions in the industrial countries resulted in capital inflows to the developing countries, as also to India. We find it rather difficult to answer the question as to whether a bandwagon effect was also partly responsible in explaining capital inflow in the Indian economy during the early nineties. On the whole, we find that both the domestic (pull) and external (push) factors put together seem to explain the recent capital inflow phase in India.

#### 6. VOLATILITY IN CAPITAL FLOWS WITH SPECIAL REFERENCE TO INDIA

One of the causes of concern regarding capital inflows is the threat of their volatility and reversal, as these can have adverse real and monetary repercussions for the recipient economy. Very often discriminatory policies are implemented for

the various kinds of capital inflows on the presumption that some forms of capital have more beneficial (or less harmful) effects than the others. Even the way in which the balance of payments data are officially presented reflects the implicit view that different types of capital flows have different economic implications [Classens, et al., 1995, p. 154]. Distinctions are made between short-term versus long-term capital flows, official versus private capital flows, and debt capital versus equity capital. The impressionistic or conventional views regard short-term (long-term) flows as hot (cool) money. According to these views, private capital inflows are supposed to be more prone to reversal than the official capital inflows. Portfolio investment is supposed to be more fluid than the FDI. In what follows, we discuss the methodology and empirical evidence which already exists on the issue of volatility of capital inflows.

#### 6.1 Empirical Evidence on Volatility of Capital Inflows to Selected Countries

Classens, et al., [1995, Pp. 153-74] have studied capital inflows to the ten countries, viz., the U.K., the U.S.A., France, Germany, Japan, Argentina, Brazil, Indonesia, Korea, and Mexico. The quarterly data used in this study ranges between the first quarter of 1973 to the third quarter of 1992, for the different countries. The study adopts two schemes of classification of capital inflows. The first classification is based on the criterion of the *type of instrument*. As per this criterion capital inflows have been classified into the following four forms: (i) FDI; (ii) portfolio equity; (iii) long-term debt; and (iv) short-term debt. The criterion for the second classification is the *transactor*. In this classification, capital inflows by foreign direct investors, banks, government and the private sector are included. This classification has been used only for Mexico. The three issues examined by this study are volatility, persistence, predictability of total capital inflows and the components thereof.

The statistical measure used in this study for examining the volatility of different categories of capital flows is that of the coefficient of variation (CV). Contrary to the common belief, Classens, et al., found that short-term flows in seven out of ten countries had the lowest coefficient of variation. If one form of capital is substituted for another then the total capital inflows are bound to exhibit less volatility than that witnessed by the components. Hence, in such a situation, one can expect a negative correlation between the different forms of capital inflows. Simple correlation coefficients between the different forms of capital indicated some degree of substitution between most of the flows for almost all countries [Classens, et al., 1995, Pp. 153-74]. They also regressed the changes in the various types of flows on the changes in the total capital account. The rationale behind this was to obtain the marginal sources of financing the current account. Besides the long-term flows, which emerged as the major marginal source of financing the current account deficit, consistent ranking for other types of flows across the countries was not found. The persistence of capital flows was examined in this study by auto-correlation coefficients and the half-life impulse response functions. Positive auto-correlations were regarded as a proof of persistence of capital inflows. Half-life impulse response functions were used within the framework of an autoregressive model of fourth order, AR(4), to estimate the number of quarters it takes for half of the shock (given through the error term) to disappear. For examining the predictability of capital flows, the study uses again AR(4) model. In this study, we investigate

volatility of the capital inflows to India, based only on the CVs and linear trend equations. The rationale for the former already exists in the above-mentioned study. We have used linear trend equations and not the correlation coefficients and the reason for the same has elaborated in the following sub-section.

## 6.2 Volatility of Capital Inflows to India

Indian economy has historically depended on long-term, official capital flows. The short-term private capital flows have become an important component of capital inflows only in the recent years. Are the short-term inflows to the Indian economy more volatile than the long-term flows? Are the total capital inflows to India less volatile than the components thereof? Does the phenomenon of substitution between various types of capital flows hold true for India? What are the monetary and fiscal implications of the recent capital inflows to India? These are some of the questions, which we seek to answer in this and the subsequent section.

In this section, we investigate the fluctuations in capital inflows. We have adhered to the classification of capital flows as presented in Table 2. This classification was dictated by the availability of data on a consistent basis over the time-span of the study, i.e., 1970-95. In Table 4A we present the CVs for CAD, CAP and for the various components of CAP. In Table 4B, the CVs for these variables as a percentage of GDPm are presented.

Table 4A. Coefficients of Variation (CV) for CAD, CAP and Components of CAP

Period (1)	CAD (2)	EA (3)	ECB (4)	IMFP (5)	NRID (6)	SDR (7)	dFER (8)	OTHC (9)	CAP (10)
CV(1970-74)	37.1	28.3	83.5	281.8	-	122.5	-552.3	-137.7	45.5
CV(1975-85)	112.9	24.8	82.5	231.3	92.2	163.3	-218.7	-393.5	66.5
CV(1986-95)	53.5	30.0	64.3	-372.1	35.0	-	-298.9	132.5	36.4
CV(1992-95)	48.6	33.6	120.5	-332.9	37.7	-	-148.1	71.0	41.8
CV(1970-95)	97.3	46.8	116.0	1,773.9	73.6	209.6	-353.9	301.9	82.2

Note: Notations used in these Tables are the same as in Table 2.  
Source: Calculated from the data sources mentioned in Table 2.

Table 4B. Coefficients of Variation (CV) for CADY, CAPY and Components of CAPY

Period (1)	CADY (2)	EAY (3)	ECBY (4)	IMFPY (5)	NRIDY (6)	SDRY (7)	dFERY (8)	OTHCY (9)	CAPY (10)
CV(1970-74)	23.3	20.0	68.9	406.5	-	122.6	-905.6	-120.5	31.1
CV(1975-85)	135.8	46.6	64.9	286.6	69.6	165.3	-170.9	-271.5	46.8
CV(1986-95)	50.8	33.3	66.0	-391.8	36.1	-	-282.2	138.0	36.2
CV(1992-95)	46.3	40.1	126.5	-442.3	42.5	-	-141.1	75.1	47.2
CV(1970-95)	83.6	38.7	85.5	952.0	82.5	212.8	-259.2	616.0	52.5

Note: Notations used in Table 4A have been suffixed by Y to indicate that these are expressed as a per cent of GDPm.

Source: Calculated from the data sources mentioned in Table 2.

The following observations can be made by a scrutiny of Table 4A. First, the volatility (as measured by the coefficient of variation) in CAP has been less than in the case of CAD and in dFER, during the period 1970-95 and for its various sub-periods (except during 1970-74). It, therefore, implies that the fluctuations in CAD have been offset primarily by volatility in changes in foreign exchange reserves (dFER). We have also seen from Table 2 and Section 6 that barring the periods 1975-79 and 1991-95, capital inflows were necessary to finance the current account deficits. Hence, the volatility in CAP in India can be attributed to the volatility in CAD, especially during the eighties. Second, the volatility in external assistance (EA) has been lower than the volatility in total capital flows (CAP). Third, by and large, the other components of capital inflows have been more volatile than total CAP. Fourth, EA, a long-term capital flow, has shown less variation than the short-term capital flows in the case of Indian economy. Lastly, the volatility in CAD in the post-reform period has decreased and so is the case with the volatility in OTHC. The information presented in Table 4B reinforces the above-mentioned findings in a more convincing manner as the CVs presented in this table are calculated for the ratios of capital inflows to GDPm and not merely for the levels of capital flows. The analysis presented above, points out two main propositions. These are: (i) fluctuations in current account have been higher than the fluctuations in capital inflows; and, (ii) fluctuations in the components of capital flows (except external assistance) have been, by and large, higher than the fluctuations in total capital flows, implying thereby, some substitution between the various components of capital inflows. As mentioned in Section 6.1, one way to ascertain the

substitution between the capital inflows would be to find out whether the correlation coefficients between the various components of capital flows are negative or positive. Negative coefficients would indicate the substitution (in an absolute sense) of one form of capital for another. However, interpreting the positive correlation coefficients is not as straightforward in the case of a rising trend in capital flows<sup>7</sup> as with the constant flows. In such a situation, it is possible that all/some forms of capital may exhibit a rising trend and the substitution has to be interpreted in a relative sense rather than in an absolute sense. The item with the highest positive trend rate can be said to substitute the item with relatively lower trend rate. In view of this, we estimated a linear trend equation<sup>8</sup> for CAP and it confirms a positive trend in CAP. In Table 5, we provide the empirical estimates of the trend equations fitted to CAP and its various components.

It can be seen from Table 5 that CAP shows a positive trend (without an intercept, since t-statistics for the intercept is not statistically significant). Due to a positive trend in CAP, one cannot infer lack of substitution if correlation coefficients between the various forms of capital inflows are positive. EA and OTHC exhibit positive and negative intercepts, respectively. This explains the absence of intercept term for the CAP. ECB, IMFP and NRID do not have statistically significant non-zero intercept terms. EA and ECB have increased with time at comparable rates, as indicated by the coefficients of trend variable. IMFP shows absence of both, the intercept as well as that of a trend. This is because, IMF purchases have to be followed by IMF repurchases within a short span of time. This item of financing is more like variations in foreign



exchange reserves. The reliance on the IMFP is more during the years of relatively large current account deficits. The coefficient of trend is the highest for OTHC followed by that of the NRID. Interpreted in a broader sense, therefore, we can conclude that OTHC, NRID and ECB have sub-

stituted EA. However, it would be unwise to interpret that these have substituted IMFP, just because it does not show a significant trend. At best, we can conclude that IMFP does not show any systematic relationship with other items of capital flows.

**Table 5. Empirical Estimates of Trend Equations: CAP and Its Components (1975 to 1995)**

Variable Name (1)	Constant (2)	Coefficient of Trend (3)	R <sup>2</sup> (4)	Elasticity at Mean (5)
CAP	167.13 (0.22)	341.82** (5.77)	0.6365	0.9574
EA	949.54 (3.87)	50.71* (2.59)	0.2612	0.3701
ECB	218.16 (0.72)	52.77* (2.18)	0.1995	0.7268
IMFP	362.46 (0.83)	-29.68 (-0.85)	0.0370	-9.0736
NRID	0.77 (0.003)	78.49** (4.91)	0.5588	0.9999
OTHC	-1363.80 (-2.07)	189.53** (3.66)	0.4063	2.8917

Note: Figures in parentheses are t-statistics. Coefficients marked \*\* and \* indicate that these are significant at 1 and 5 per cent levels, respectively.

Source: Estimates based on data sources provided in Table 2.

#### 7. POLICY RESPONSE TO CAPITAL INFLOWS TO INDIA IN THE 'NINETIES

As mentioned earlier, capital inflows can have the adverse effects as well. Capital inflows, which are not matched by the current account deficits, tend to increase supply of foreign currency (via accumulation of foreign exchange reserves) and, hence, result in appreciation of the nominal and real exchange rate. This can hurt exports and deteriorate current account balance. In order to avoid the appreciation of real exchange rate, the central bank can intervene in the foreign exchange (forex) market and start buying the foreign currency. In other words, it would reduce the supply of foreign currency in the foreign exchange market and increase the supply of domestic currency with the public. During March 1993 to June 1995, the Rupee-US \$ rate ranged between 31.25 to 31.51. Though data regarding the intervention by the Reserve Bank of India in the forex market, in order to avert the appreciation of the rupee, is not available, it is not inappropriate to infer that the RBI tried to do so during this period. Net foreign exchange assets of the Reserve Bank of

India were Rs 22,647, Rs 51,422 and Rs 74,720 crore in March 1993, 1994 and 1995, respectively. Since exchange rate was stable during this period, this also implies increase in net foreign exchange assets of the RBI in US \$ terms in similar proportion. It is necessary to mention that these increases were not on account of purchases from the IMF. The IMF purchases in 1993 amounted to barely Rs 587 crore and in 1994 we had repurchases to the tune of Rs 3,588 crore. Hence, it can be safely inferred that the RBI did intervene in the foreign exchange market so as to avert the appreciation of the rupee. It can be seen from Table 3 that during 1993-95, nominal effective exchange rate of the rupee depreciated to a much lesser extent than during 1987-89 (pre-stabilisation) period. In fact, the real effective exchange rate appreciated which has adverse implications for export performance. The concern regarding the growth in exports is voiced in the *Economic Survey, 1996-97* as follows: 'There has been a slowdown in the growth of exports during 1996-97. During April-December 1996, exports in US dollar terms grew only by 6.4 per cent as

against the annual average growth rate 19.7 per cent during the previous three years (1993-94 to 1995-96)...The latest trend in growth rate of exports seems to suggest that the initial impact of trade liberalisation is petering out and the trade flows are reverting to their normal trend determined by the world demand and domestic activity' [Government of India, 1997, p. 13]. Even though the *Survey* does not mention the role of exchange rate as a causative factor in export performance, a number of studies in the Indian context have confirmed the fact that India's exports are price elastic. In other words, the RBI seems to have intervened in the forex market so as to prevent potential appreciation of the rupee and, thereby, to protect the international competitiveness of our exports.

If a central bank intervenes in the foreign exchange market and accumulates foreign exchange reserves into its coffers, it also implies that the bank has released the domestic currency in exchange for the foreign currency. This increases liquidity in the system and can result in inflation. In order to mop-up the liquidity from the system, the central bank resorts to open market sales of Treasury bills and other government

securities, which means that liquidity is brought back to the monetary authority. This process is known as 'sterilisation'. Thus, intervention in forex market combined by the sterilisation implies that the central bank trades government securities for foreign exchange via domestic currency. In this manner it attempts to provide a nominal anchor in the form of money supply to the system. What has been the response of Indian policy makers to capital inflows of 1993-95? Table 6 presents market borrowings of the central government during 1987-1996 period.

It can be seen from Table 6 that market borrowings of the government registered a phenomenal jump in 1993. This jump has been both, in gross as well as in net borrowings. Net borrowings have increased from an average of Rs 7,218 crore (1987-89) to Rs 24,457 crore (1993-95). This partly explains the success of the Indian economy in reigning in inflationary process in the event of capital inflows. However, from the point of view of future, it certainly bodes ill. Sterilisations as pointed out in the literature can lead to burgeoning of debt-stock, a rising debt-GDP ratio and consequently an upward pressure on interest rate.

Table 6. Market Borrowings of the Government of India

Year	Amount		Subscription in		Amount Repaid in Cash in case of Maturing Loans	Net Market Borrowings
	Issued	Subscribed	Cash	Conversion		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1987	7,105	7,821	7,730	91	730	7,000
1988	7,015	7,725	7,376	349	126	7,250
1989	8,034	8,044	7,469	575	64	7,405
1990	8,988	8,989	8,531	458	529	8,002
1991	8,908	8,919	7,840	1,079	339	7,501
1992	4,821	4,821	4,675	146	1,005	3,670
1993	49,012	49,012	49,012	-	21,860	27,152
1994	38,108	38,108	38,108	-	18,034	20,074
1995	40,509	40,509	40,509	-	14,062	26,447

Source: *Report on Currency and Finance*, (various issues) Reserve Bank of India, Mumbai.

Another way of dealing with capital inflows is to liberalise imports and allow outward mobility of capital. We have seen that import liberalisation has taken place by reduction of both price and non-price barriers, in spheres of both capital and consumer goods. This, to some extent, absolves the monetary authority from the worries of intervention, sterilisation and inflationary pressures. Norms have been moderated also for the outward mobility of capital. However, under such circumstances as the objective of the policy makers is to reduce the net capital inflows, growth-promotion effects of capital inflows will have to be sacrificed.

#### 8. CONCLUDING OBSERVATIONS

The following conclusions emerge from this study. First, except during 1974-79 and 1991-95 periods, capital inflows to India were required for financing the current account deficits. Second, during the seventies, external assistance was a preponderant form of capital inflow, whereas, in the subsequent period capital inflows have come to India on market-determined rates of interest. Thirdly, the crisis of 1990-91 forced the Indian policy makers to initiate the reform process. These reforms have not progressed in a smooth and even manner. Reforms, especially in the fiscal and external financial sector, are yet to be introduced in a comprehensive manner. Fourth, capital inflows to the Indian economy in the nineties seem to have been a response to the improved fundamentals of the Indian economy (pull factor) and also due to the recessionary conditions (push factor) in the industrial countries. Given the hardening of interest rates abroad, revival of growth in industrial countries, political uncertainty and deteriorating fiscal situation in India, inviting and managing capital flows is not going to be an easy task. Fifth, fluctuations in current account in India have been higher than the fluctuations in capital inflows. This implies that policies aimed at sustainable current account deficits are warranted which will partly take care of volatility of capital inflows. Sixth, fluctuations (as measured by the coefficients of variation) in the external assistance have been lower than those witnessed by the other forms of capital inflows. The importance of external assistance, which can

be regarded as cool money in the Indian context, has declined over the years and it is unlikely that the availability of this source of capital will increase in future. Seventh, the fact of substitution between the various forms of capital inflows can be inferred from the estimates of the trend equations and the changes in the composition of capital inflows. Lastly, the policy makers in India seem to have responded to the capital inflows of the early nineties by intervening in the foreign exchange market and sterilisation via Open Market Sales. These policies did yield short-term benefits in terms of preventing nominal appreciation of the rupee and containment of inflation in the short-run. However, real appreciation of the rupee could not be averted. The real effective exchange rate appreciated in 1996-97 by about 1.8 per cent. Growth rate of exports in US dollar terms decelerated to just 5.6 per cent in 1996-97 from about 20 per cent in the preceding year. Export to GDP ratio witnessed a consistent decline in 1995-96 and 1996-97. All this happened prior to the onset of the East-Asian crisis. The onset of the East-Asian crisis made the situation more complex. Foreign-exchange intervention hurts exports and, hence, cannot be sustained in the long-run in the absence of improved productivity and a more favourable external environment. Foreign-exchange intervention coupled with sterilisation tends to increase the debt-stock of the government and deterioration in fiscal situation. The long-term effects of these measures have made their presence felt in the Indian economy in the form of depreciation of the rupee, a deteriorating fiscal situation and a rising rate of inflation. If capital inflows can be successfully used to promote growth then the monetary effects of capital flows can be kept under check. Apart from implementing the supply side policies to manage capital inflows, the policy makers will have to tame the current account deficits so as to reduce the reliance on capital inflows as a financing device. The costs associated with the use of other less conventional measures to manage capital flows, such as, bank rate, reserve ratio requirement, use of forward foreign exchange swaps, etc., should be investigated so as to assess the appropriateness of using these during the capital inflow episodes.

## NOTES

1. For sake of brevity, the term 'capital inflows' in place of 'net capital inflows' has been used in this paper.

2. *Economic Survey, 1996-97* mentions the need to raise foreign direct investment from its present level of about US \$ 2 billion to about US \$ 10 billion (at least one-fourth of the level attracted by China in 1996) per year. [See Government of India, 1997, p. 16].

3. In the case of equity capital, payment of dividends follows the business cycles and, hence, these outflows are termed as pro-cyclical. As against it, interest payments on debt-capital have to be made even under recessionary conditions unlike in the case of former. This is why the former form of capital inflows are preferred over the latter.

4. The success of South-East Asian central banks is attributed to their pragmatic use of public institutions such as social security funds, public sector banks and public enterprises towards the sterilisation purposes [Frankel, 1993, p. 19]. Transfer of funds to central banks from these institutions enabled these economies to insulate themselves from the ill-effects of capital flows despite international financial

liberalisation. The international financial liberalisation preceded by domestic financial liberalisation, i.e., the reverse order of optimal liberalisation, seems to be behind the short-lived success of sterilisation operations conducted by these countries.

5. See, Bhole, L.M., 1992, for a summary of the recommendations made in the *Report of the Committee on the Financial System*, Reserve Bank of India, Mumbai, 1991.

6. A negative (positive) sign against the change in foreign exchange reserves (dFER) indicates an increase (decrease), following the convention followed in the balance of payment statements.

7. If capital inflows are constant, a change in the composition of these inflows will yield negative correlation coefficients between various forms of capital. However, with rising capital inflows it is most likely that all the components of capital inflows will rise, albeit at different rates. Therefore, positive correlation between the various components of capital can be witnessed, despite substitution of one form of capital for another.

8. We could not fit semi-logarithmic trend equation as the items of capital flows have negative magnitudes for which log values are not defined.

## Annexure I.

(Mn. US \$)

(1)	BOT (2)	CAB (3)	EA (4)	ECB (5)	IMFP (6)	NRID (7)	OTHC (8)	Capflows (9)	Changes in FERs (10)
1970-71	-540.4	-589.2	666.8	21.4	-203.7	0.0	-112.2	372.3	117.2
	-635.3	-667.6	680.5	12.9	0.0	0.0	1.5	694.9	-127.3
	-216.7	-402.8	488.0	70.1	0.0	0.0	-198.3	359.8	43.1
	-649.1	-703.6	591.5	92.1	78.9	0.0	47.8	810.3	-106.7
	-1613.6	-1,198.3	1,071.0	195.0	607.9	0.0	-666.4	1,207.4	-9.2
1975-76	-1,366.7	-205.6	1,409.1	267.2	251.7	41.9	-805.5	1,164.4	-958.8
	-346.7	1,000.5	1,420.8	182.6	-342.7	187.1	-886.4	561.4	-1,561.9
	-697.7	1,312.8	1,029.8	39.1	-335.8	233.7	-474.3	492.6	-1,805.4
	-2,695.6	-289.9	554.6	200.3	-244.0	190.3	653.0	1,354.3	-1,218.1
	-4,131.4	-664.5	788.4	53.3	-98.8	194.9	21.0	958.8	-443.7
1980-81	-7,869.0	-2,804.5	1,409.1	251.8	336.0	225.5	-221.5	2,001.0	653.8
	-7,272.8	-3,179.3	834.9	163.6	710.8	230.6	-572.9	1,367.0	1,812.4
	-7,362.7	-3,594.1	1,232.2	802.4	2,075.9	420.0	-252.0	4,278.4	-684.3
	-6,714.8	-3,215.7	1,147.6	761.0	1,310.3	687.9	58.4	3,965.2	-749.5
	-5,654.3	-2,416.6	1,183.7	933.8	49.3	739.5	289.3	3,195.6	-778.9
1985-86	7,833.5	-4,866.9	1,369.6	953.6	-216.3	1,444.0	738.7	4,289.6	577.3
	-7,315.4	-4,559.5	1,413.7	1,965.5	-525.8	1,290.4	-157.0	3,986.9	572.6
	-7,168.4	-4,852.3	2,270.8	976.2	-932.3	1,418.9	381.3	4,115.0	737.3
	-9,363.9	-7,191.0	2,217.2	1,894.7	-1,068.8	1,703.0	1,443.7	6,189.8	1,001.1
	-7,449.9	-5,899.6	1,854.4	1,775.5	-876.0	1,465.4	940.6	5,160.0	739.6
1990-91	-9,434.2	-9,676.6	2,209.1	2,248.1	1,213.5	1,535.5	1,192.9	8,399.0	1,277.5
	-2,649.0	-912.4	3,015.7	1,552.7	847.1	411.1	-898.9	4,927.7	-4,015.3
	-5,339.0	-4,832.7	2,177.1	-414.2	1,273.3	2,308.5	458.5	5,803.2	-970.4
	-2,386.1	-1,159.2	1,901.5	607.4	187.1	1,205.1	6,122.3	10,023.4	-8,864.2
	-4,983.3	-2,701.4	1,434.5	1,029.0	-1,142.7	846.9	5,490.7	7,658.3	-4,956.9
1995-96	-8,951.9	-5,495.7	781.2	527.9	-1,716.2	1,367.1	1,618.3	2,578.3	2,917.5

Sources: (i) *India's Balance of Payments: 1948-49 to 1988-89*, Reserve Bank of India, Mumbai, 1993. (ii) *Reserve Bank of India Annual Report, 1997-98*, Reserve Bank of India, Mumbai, 1998. (iii) *Economic Survey*, Ministry of Finance, Government of India, New Delhi, 1998. (iv) *Report on Currency and Finance, 1996-97*, Reserve Bank of India, Mumbai.

Annexure 2.

(1)	BOT (2)	CAB (3)	EA (4)	ECB (5)	IMFP (6)	NRID (7)	OTHC (8)	Capflows (9)	Changes in FERs (10)	Y GDPm (11)	RS/US \$ (12)	BOT/Y (13)	CAB/Y (14)	CAP/Y (15)
1970-71	-408.5	-445.4	504	16.2	-154		-84.8	281.4	88.6	43,163	7,5590	-0.9	-1.0	0.7
1971-72	-474.6	-498.7	508.4	9.6			1.1	519.1	-95.1	46,257	7,4705	-1.0	-1.1	1.1
1972-73	-167.5	-311.4	377.2	54.2			-153.3	278.1	33.3	51,005	7,7303	-0.3	-0.6	0.5
1973-74	-510.4	-553.2	465.1	72.4	62		37.6	637.1	-83.9	62,007	7,8628	-0.8	-0.9	1.0
1974-75	-1,286.9	-955.7	854.2	155.5	484.8		-531.5	963	-7.3	73,235	7,9755	-1.8	-1.3	1.3
1975-76	-1,182.6	-177.9	1,219.3	231.2	217.8	36.3	-697	1,007.6	-829.7	78,761	8,6533	-1.5	-0.2	1.3
1976-77	-309.9	894.3	1,270	163.2	-306.3	167.2	-792.3	501.8	-1396.1	84,894	8,9385	-0.4	1.1	0.6
1977-78	-597.4	1,124.1	881.8	33.5	-287.5	200.1	-406.1	421.8	-1,545.9	96,067	8,5625	-0.6	1.2	0.4
1978-79	-2,212.1	-237.9	455.1	164.4	-200.2	156.2	535.9	1,111.4	-999.6	104,190	8,2063	-2.1	-0.2	1.1
1979-80	-3,439.9	-553.3	656.4	44.4	-82.3	162.3	17.5	798.3	-369.4	114,356	8,3263	-3.0	-0.5	0.7
1980-81	-6,210.8	-2,213.5	1,112.2	198.7	265.2	178	-174.8	1,579.3	516	136,013	7,8928	-4.6	-1.6	1.2
1981-82	-6,494.1	-2,838.9	745.5	146.1	634.7	205.9	-511.6	1,220.6	1,618.3	159,760	8,9293	-4.1	-1.8	0.8
1982-83	-6,719.4	-3,280.1	1,124.5	732.3	1,894.5	383.3	-230	3,904.6	-624.5	178,132	9,1263	-3.8	-1.8	2.2
1983-84	-6,924.5	-3,316.1	1,183.4	784.8	1,351.2	709.4	60.2	4,089	-772.9	207,589	10,3123	-3.3	-1.6	2.0
1984-85	-6,721.1	-2,872.6	1,407	1,110	58.6	879	343.9	3,798.5	-925.9	231,343	11,8868	-2.9	-1.2	1.6
1985-86	-9,586	-5,955.8	1,676	1,167	-264.7	1,767	904	5,249.3	706.5	262,243	12,2373	-3.7	-2.3	2.0
1986-87	-9,353.9	-5,830	1,807.6	2,513.2	-672.3	1,650	-200.7	5,097.8	732.2	292,949	12,7865	-3.2	-2.0	1.7
1987-88	-9,296.1	-6,292.6	2,944.8	1,266	-1,209	1,840.1	494.5	5,336.4	956.2	333,201	12,9683	-2.8	-1.9	1.6
1988-89	-13,555	-10,410	3,209.7	2,742.9	-1,547.3	2,465.4	2,090	8,960.7	1,449.3	395,782	14,4765	-3.4	-2.6	2.3
1989-90	-12,413	-9,830.2	3,089.9	2,958.4	-1,459.6	2,441.8	1,567.3	8,597.8	1,232.4	456,821	16,6625	-2.7	-2.2	1.9
1990-91	-16,933	-17,368	3,965	4,035	2,178	2,756	2,141	15,075	2,293	535,798	17,9485	-3.2	-3.2	2.8
1991-92	-6,495	-2,237	7,394	3,807	2,077	1,008	-2,204	12,082	-9,845	616,723	24,5188	-1.1	-0.4	2.0
1992-93	-14,101	-12,764	5,750	-1,094	3,363	6,097	1,211	15,327	-2,563	704,789	26,4115	-2.0	-1.8	2.2
1993-94	-7,484	-3,636	5,964	1,905	587	3,780	19,203	31,439	-27,803	801,289	31,3655	-0.9	-0.5	3.9
1994-95	-15,647	-8,482	4,504	3,231	-3,588	2,659	17,240	24,046	-15,564	945,967.2	31,3986	-1.7	-0.9	2.5
1995-96	-29,898	-18,355	2,609	1,763	-5,732	4,566	5,405	8,611	9,744	10,84,915.3	33,3986	-2.8	-1.7	0.8

Sources: Same as for Annexure 1.

## Annexure 3.

(1)	EA (2)	ECB (3)	IMFP (4)	NRID (5)	OTHC (6)
1975-76	121.0	22.9	21.6	3.6	-69.2
	253.1	32.5	-61.0	33.3	-157.9
	209.1	7.9	-68.2	47.4	-96.3
	40.9	14.8	-18.0	14.1	48.2
	82.2	5.6	-10.3	20.3	2.2
1980-81	70.4	12.6	16.8	11.3	-11.1
	61.1	12.0	52.0	16.9	-41.9
	28.8	18.8	48.5	9.8	-5.9
	28.9	19.2	33.0	17.3	1.5
	37.0	29.2	1.5	23.1	9.1
1985-86	31.9	22.2	-5.0	33.7	17.2
	35.5	49.3	-13.2	32.4	-3.9
	55.2	23.7	-22.7	34.5	9.3
	35.8	30.6	-17.3	27.5	23.3
	35.9	34.4	-17.0	28.4	18.2
1990-91	26.3	26.8	14.4	18.3	14.2
	61.2	31.5	17.2	8.3	-18.2
	37.5	-7.1	21.9	39.8	7.9
	19.0	6.1	1.9	12.0	61.1
	18.7	13.4	-14.9	11.1	71.7
1995-96	30.3	20.5	-66.6	53.0	62.8

Sources: Same as for Annexure 1.

## Annexure 4. Foreign Investment Inflows

(Total in Million US \$, Rest as a per cent of Total)

Item (1)	1991 (2)	1992 (3)	1993 (4)	1994 (5)	1995 (6)
A. Direct Investment	94.9	78.8	13.8	26.8	49.1
i. Government	55.1	55.0	6.6	14.3	28.7
ii. RBI	-	9.7	2.1	3.5	3.9
iii. NRI	39.9	14.1	5.1	9.0	16.4
B. Portfolio Investment	5.1	21.2	86.2	73.2	50.9
i. GDRs	-	19.9	37.8	37.6	3.4
ii. FIIs	-	0.2	39.3	30.7	46.2
iii. Offshore Funds	5.1	1.2	9.0	4.9	1.3
Total (A + B)	158.0	433.0	4,235.0	4,895.0	4,347.0

Notes: GDRs : Global Depository Receipts; FIIs : Foreign Institutional Investors; NRI : Non-resident Indians.

Source: *Economic Survey*, (Various Issues) Ministry of Finance, Government of India, New Delhi.

## Annexure 5. Foreign Direct Investment Inflows - Country-wise

(Total in Million US \$, Rest as a per cent of Total)

Country (1)	1992 (2)	1993 (3)	1994 (4)	1995 (5)
USA	6.4	16.9	15.4	9.0
UK	1.9	10.9	10.9	3.3
Japan	7.5	6.3	7.2	2.9
Netherlands	6.2	7.9	3.4	2.3
Germany	6.3	6.0	2.6	4.7
Switzerland	10.4	3.8	2.0	1.5
Singapore	0.8	1.7	1.9	2.8
Hong Kong	1.2	1.0	1.6	4.6
France	2.7	1.8	1.1	2.9
Others	38.8	6.6	20.2	32.5
FDI by NRIs	17.9	37.0	33.6	33.5
Total NRIs excl.	280.0	369.0	872.0	1,418.0
Total NRIs incl.	341.0	586.0	1,314.0	2,133.0

Source: *Economic Survey*, (Various Issues) Ministry of Finance, Government of India, New Delhi.

## Annexure 6. Foreign Direct Investment Inflows - Industry-wise

(Total in Million US \$, rest as a per cent of Total)

Industry (1)	1992 (2)	1993 (3)	1994 (4)	1995 (5)
Chemical and Allied Products	13.8	6.4	10.7	5.9
Engineering	20.5	5.6	10.0	11.8
Domestic Appliances	4.6	0.4	8.2	0.0
Finance	1.1	7.2	7.4	12.7
Services	0.7	3.4	7.1	4.7
Electronics/Electrical	9.6	9.7	4.3	6.1
Food and Dairy Products	8.2	7.4	4.6	4.0
Computers	2.4	1.3	0.8	2.4
Pharmaceutical	0.9	8.4	0.8	2.6
Others	20.3	13.0	12.3	16.3
FDI by NRIs	17.9	37.0	33.6	33.5
Total NRIs excl.	82.1	63.0	66.4	66.5
Total NRIs incl.	100.0	100.0	100.0	100.0

Source: *Economic Survey*, (Various Issues) Ministry of Finance, Government of India, New Delhi.

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## BANKING SECTOR REFORMS

P.B. Kulkarni

*The Indian Banking industry is going through a period of intense change. Global trends are impacting the banking business through increasing competition, liberalisation, rising customer expectations, shrinking spreads, increasing dis-intermediation, competitive pricing and possibilities of macro-volatility. If the banks want to survive, there is no choice for them but to manage their operations efficiently and profitably and to ensure sustainable growth. The lessons to be derived from the Japanese and South-East Asian experiences is that, unlike goods markets, the liberalisation of financial markets is a complex affair. Narasimham Committee Reports (November 1991 and April 1998) have analysed the problems and made detailed recommendations for implementation. Attempt has been made in this Paper to present a broad view of Indian banking, to examine operational implications of various recommendations and suggest priorities to get our banking sector firmly on its feet. Otherwise, we may expose ourselves to currency and banking crises, which may be followed by a setback to the overall process of economic reforms.*

After Independence of India, serious and sincere efforts have been made by the Government of India and the Reserve Bank of India (RBI) to build up geographically wide and functionally diverse financial infrastructure so as to help the process of resource mobilisation and to meet the expanding and emerging needs of a developing economy. The prime focus has obviously been the banking system. Nationalisation of major banks in July 1969 was a major step. It was designed to make the system reach out to small man, to sectors and geographical areas hitherto neglected, and to mobilise savings particularly of the households sector. The period of about 3 decades since nationalisation has, no doubt, seen progress with respect to various objectives but at the same time certain rigidities and weaknesses got developed into the system. Before we look into them, it may be useful to have a broad idea of the present expanse of the banking system in India.

2. The Total number of branches of scheduled commercial banks as at the end of March 1997 was 65,485 [Reserve Bank of India, 1996-97, Statement 51, p. 80]. The number has slightly increased since then. In addition to these, we have about 350 district central co-operative banks, 1,650 primary co-operative banks (including non-scheduled urban co-operative banks. In 1969 each office (i.e. branch) of all banking institutions taken together served on an average about 65,000 persons. The figure now is about 11,000 (in spite of the increased population). Much of the branch

expansion has occurred in the rural and semi-urban areas. Nearly three out of four bank offices are in rural and semi-urban areas, in spite of difficult access, inadequate infrastructure and other discomforts there [Reserve Bank of India, 1996-97, Volume II, Statement 51, p. 80].

3. As on the last Friday of March 1998, nationalised banks accounted for 54.7 per cent of the aggregate deposits. The figures for the State Bank of India (SBI) Group, foreign banks, other scheduled commercial banks and RRBs on that day were 24.8 per cent, 7 per cent, 9.8 per cent and 3.8 per cent respectively. As regards gross bank credit, the position was as under:-

Nationalised banks	- 48.3 per cent
SBI Group	- 29.0 per cent
Foreign banks	- 9.0 per cent
Other Scheduled	
Commercial banks	- 10.5 per cent
RRBs (Regional Rural Banks)	- 3.2 per cent

[Source: *Times of India*, Mumbai, July 4, 1998.]

It will be noted that public sector banks accounted for more than three fourth of the banking business.

4. The aggregate deposits and gross bank credit as on November 6, 1998 were Rs 6,76,350 crore and Rs 3,37,176 crore, respectively [RBI, 1998(a)], as against Rs 4,338 crore and Rs 3,396 crore on March 31, 1969 [RBI, 1998(b)]. Banks have helped significantly for the growth in the

volume of financial savings of the community resulting in sharp growth of the share of the financial assets in the total assets of the community. The rise in the resources of the banking sector helped finance governmental borrowings and the importance of the sector to the national economy lies in terms of its contribution to growth, employment generation and broadening the base of income distribution, which were relatively neglected till nationalisation. Agriculture, small scale industry (SSI), small enterprises including transport operators, generally represented what came to be regarded as the priority sector. It was made mandatory for the banks to achieve a target of providing 40 per cent of the aggregate bank credit for priority sector and within that too, specific targets were prescribed for agriculture, SSI, etc. The rates of interest for such advances were also to be concessional. This resulted in a remarkable transformation in the portfolio composition of bank advances and average size of bank credit. It must, however, be understood clearly that the institutional development and impressive quantitative achievements of banks - particularly of nationalised banks - have not been without costs. There has been deterioration in the quality of loan portfolio, decline in the efficiency of operations, erosion of profitability, bad housekeeping (i.e., balancing of books and reconciliation of entries) creating scope for frauds, political interference and other adverse features generally associated with government organisations.

#### *What Is Ailing the Banking Sector?*

5. Nationalisation of banks in 1969, no doubt, produced a number of desired results but it also created a number of weaknesses and problems for the banks and within the system as a whole. Briefly, they can be summarised as under:-

The job security, virtual absence of rewards and punishment system, and the scrutiny by vigilance machinery in the public sector resulted in the loss of business orientation. In its place came target orientation. The authorities in Government of India and Reserve Bank of India started judging the bank managements on the basis of quantitative figures of branch opening, deposits, priority

sector advances, 20-point programme fulfilment, Scheduled Castes/Scheduled Tribes (SC/ST) recruitment, use of official language in business - to name just a few. Political pressures and bureaucrats' intervention in respect of sanction of loans and advances, hiring of premises, recruitment, transfers, postings and promotions and a number of matters of internal administration also started playing their unwanted role. Most of the members of the Board of Directors were appointed for considerations other than professional background and knowledge. All this resulted in loss of quality. Inadequate internal control and deterioration in what is termed as 'housekeeping', were serious developments. Profitability was no longer the priority item on the agenda. A general complacency crept in with the thought that since the banks are owned by government, the government will take care of losses, bad advances and there was no need to follow any norms with respect to adequacy of capital, income determination, provisioning for doubtful debts, etc. Obviously, the result of this was:

(i) deterioration in customer service, (ii) development of a culture to please people who mattered for one's career, (iii) publishing of 'not fair view' balance sheets to avoid the stigma of showing losses, and (iv) lack of transparency in overall operations.

6. The situation was compounded by more or less regimented regime/control by the Reserve Bank of India. Interest rates - both for deposits and advances - were fixed by the Reserve Bank (at one time, the list showing interest rates to be charged on various types of advances ran into 4-5 printed pages). These rates took into account more the social obligations of the state than business viability. Similarly, the coupon rates on government securities were fixed low artificially and the requirement to invest in such securities jacked up - mostly to facilitate government borrowing at cheaper rates of interest. Fixed exchange rate system and strict control over foreign exchange transactions (including levy of charges for various services by banks on their customers) also reduced the scope to increase the income of banks.

7. To add to this, because of lopsidedness of various labour laws exacerbated by competition among political parties to win votes of the organised labour, trade unions became strong and powerful. They developed and followed labour protection practices beyond reasonable limits. Weaknesses developed in the internal organisational structure of banks. The situation resultantly changed from bad to worse - all to the detriment of the soundness of the banking system.

8. The banks almost forgot long range planning, the art of taking a view of the market, the basic *raison d'être* for their existence, i.e., their true role in the process of economic growth and development. The average percentage of what is called 'non-performing assets' (NPAs)<sup>1</sup> in the loans and advances portfolio of public sector banks was 23.2 per cent and in the case of some banks even more than 40 per cent on March 31, 1993 [RBI, 1997-98, Table 1.4, p. 25].

#### *Implications of a Weak Banking System*

9. To put it in simple terms, finance is the fuel for economic growth process. The speed or rate of growth will depend, among other things, upon how much finance (both for investment and business running expenses) is available, at what cost, and the probability of smooth flow of funds at least for the medium term period. The efficiency of credit delivery and payment system as well as facility to hedge various types of business risks are also equally important factors. Now, the providers of these inputs being financial institutions and banks, it is imperative that they themselves are sound financially, they function in a sound and efficient manner, their policies are prudent and they have the capacity to bear unforeseen shocks arising on account of both domestic and international developments of political, economic and speculative nature. If financial sector is weak, tottering and inefficient, it will be almost impossible to ensure smooth and speedy economic growth. In other words, a strong financial system is central to the objective of strengthening the real economy and for its healthy and orderly growth.

10. Having accepted this proposition, the next question obviously is what should be done to ensure sound financial system. To seek expert advice on this issue, the Government of India appointed in August 1991 a Committee on the Financial System under the chairmanship of M. Narasimham, former Governor of RBI. It was said in the memorandum that 'certain rigidities and weaknesses have developed in the system and these have to be addressed to enable the financial system to play its role in ushering in a more efficient and competitive economy'. The terms of reference of the Committee are reproduced in Annexure I.

#### *Main Recommendations of Narasimham Committee I*

11. The Committee submitted its *Report* in November 1991. The main recommendations of the Committee have been summarised below. Before making the recommendations, the Committee observed, 'The deterioration in the financial health of the system has reached a point where unless remedial measures are taken soon, it could further erode the real value of and return on the savings entrusted to them and even have an adverse impact on depositor and investor confidence'.

i) Statutory Liquidity Ratio (SLR) requirements should be based on prudential requirement for banks and not be viewed as a major instrument for financing government budget. SLR should be brought down to 25 per cent (from about 38-40 per cent) in a phased manner.

ii) Interest rates should be deregulated gradually and with the deregulation of interest rates, the RBI should resort more to open market operations (i.e., buying and selling securities) than changing Cash Reserve Ratio (CRR) to control the secondary expansion of credit.

iii) Interest rates on SLR investments should be market related while that on CRR should be broadly related to banks' cost of deposits.

- iv) The directed credit programme (i.e., requirement to lend certain minimum amount to specific sectors at specified/concessional rates of interest) should be phased out/redefined.
- v) The Capital Adequacy Standards recommended by the Bank for International Settlements, Basle (minimum of 8 per cent capital in relation to risk weighted assets)<sup>2</sup> should be achieved by banks latest by March 1996. Whenever possible, banks (i.e., those enjoying good reputation in the market) should approach the capital market for enhancement of their capital and, in other cases, the government should meet the shortfall by direct subscription to capital or by providing a loan, which could be treated as subordinated debt (i.e., to be repaid after other liabilities are paid).
- vi) Banks should adopt sound and uniform accounting practices with regard to:
  - a. Income recognition, (i.e., rules regarding accounting treatment about income receivable but not actually received)
  - b. Provisioning against doubtful debts,
  - c. Valuation of investments.<sup>3</sup>
 (Specific suggestions have been made in the Report in respect of each of the above three items).
- vii) Special Tribunals should be set up to speed up the process of recovery.
- viii) An Asset Reconstruction Fund (ARF) should be established (with capital subscribed by the public sector banks and financial institutions), which could take over from banks and financial institutions a portion of the bad and doubtful debts at an appropriate discount and the ARF should be provided with special powers for recovery. To enable the banks to finance the write off (i.e., the discount element in such cases transferred to ARF), Government of India should provide a subordinated loan counting for capital.
- ix) In regard to the structure of the banking system, broad pattern should be as under:
  - a. Three or four large banks, which could become international in character.
  - b. Eight to ten national level banks with a network of branches throughout the country.
  - c. Local banks with operations confined to a specific region.
  - d. Rural banks confined to the rural areas and predominantly engaged in financing of agriculture and allied activities.

The move as above should be brought about through a process of mergers and acquisitions after satisfying that the new unit will be in a position to run its operations profitably.
- x) The system of branch licensing should be abolished and the matter of opening and closing branches (other than rural branches) may be left to the commercial judgement of the individual banks.
- xi) The policy with regard to allowing foreign banks to open branches in India and opening of private banks (by Indians) should be liberal (subject of course to basic conditions regarding capital, etc.).
- xii) Internal organisation of banks may best be left to the judgement of the management of individual banks.
- xiii) Computerisation has to be recognised as an indispensable tool for improvement in customer service, institution and operation of better control systems, efficiency and betterment of the work environment.
- xiv) As regards recruitment of officers and staff, appointment of chief executives and constitution of the boards of directors, suggestions are:
  - a. Individual banks should be free to make their own recruitment of officers.

- b. Creation and categorisation of posts, promotion procedures and similar matters should be left to the banks in the context of the need to ensure the independence and autonomy of banks.
  - c. While appointing the Chairman and Managing Director for a bank, professionalism and integrity should be the prime considerations, and a convention should be developed to accept in this respect recommendations of a group of eminent persons, appointed by the Governor of the Reserve Bank of India.
  - d. There is no need for the Reserve Bank to have a representative on the banks' boards.
- xv) The duality of control over the banking system between the RBI and the Ministry of Finance should end, and RBI should be the primary agency for the regulation of the banking system. The RBI's supervisory function should be hived off to a separate authority under the aegis of the Reserve Bank. Supervision of various other institutions rendering financial services (merchant banks, mutual funds, leasing companies, venture capital companies, factoring companies, etc.) should also come within the purview of the new agency to be set up under the aegis of the RBI.

12. It will be observed from the above that the Committee's approach has been to consolidate the gains made over the years in the Indian financial sector by cementing the loopholes/weaknesses by improving the quality of the loan portfolio of banks, providing the banks greater operational flexibility and autonomy, which is necessary to nurture a healthy, competitive and vibrant financial sector.

#### *Achievements Between 1992 and 1997*

13. Out of the major recommendations listed above, while recommendations in para 11 (iv), (viii), (ix) and (xv) have not been implemented, there is only a partial implementation of recommendations (vii), (x), (xii) and (xiv). The rest can

be said to have been implemented by the end of 1997.

As regards the recommendation implemented partially, the position is briefly as under:

- vii) special tribunals have been set up only in some states and not in adequate number to decide on the large number of pending cases of dispute.
- x) only profit making banks have been permitted.
- xii) for increasing the posts at various levels, government's permission is required.
- xiv) (a), (b) and (d) not implemented.

14. The Committee's major contribution was the introduction of prudential norms and imparting greater transparency and accountability in operations - all with the intention of restoring the credibility of the institutions. The concept of identifying and classifying advances into standard, sub-standard, doubtful and loss assets, was based on clear, identifiable and objective criteria with a view to ensuring that the banks in India book interest income on the basis of actual realisation from out of performing loans and advances. The banks were also obliged to make provision against possible loan losses. These prudential regulations produced a sea-change in the functioning of banks in the post-Narasimham Committee I period. Also resultantly, most of the public sector banks came to face the reality of the large non-performing advances, which had not been identified till then. This affected profitability and net owned funds position of banks. Bank-specific actions were also initiated by the RBI on the basis of their inspection. (Memorandum of understanding was signed with banks).

15. In retrospect, the measures produced desired results to a noticeable extent. Except one bank, all have by now fulfilled capital adequacy norms of 8 per cent of risk weighted assets. The non-performing assets (NPA) level was 17.8 per cent of the total advances as of March 1997. [RBI, 1997-98, Table 1.4, p. 25]. Though still high, accretion of fresh NPAs was smaller in comparison to the expansion of credit.

16. As regards profits, although in the initial two-three years, profitability was adversely affected in respect of almost all banks, the banks have gradually improved their performance and, except one bank, all public sector banks have recorded *operating profit* during 1997-98 [RBI, 1997-98, Table 1.3].

17. To increase capital, eight public sector banks accessed the capital market during 1994-98.

18. Strategic long term planning for sustained progress, improvement of market share, and carving out niche areas are increasingly under discussion at various levels in banks. Computerisation has also made noticeable progress.

19. Another area where one can notice marked improvement is the range of disclosures in the banks' balance sheets. The banks are now required to disclose the level of NPAs, the current break up of the provisions made towards NPAs, depreciation of investments and other purposes, capital adequacy ratio, business and accounting ratios relating to capital, income, operating profit, return on assets, business per employee, profit per employee, etc.

20. Banks have since been allowed to undertake para-banking activities by forming separate subsidiaries. Such activities encompass merchant banking and securities related activities, equipment leasing and hire purchase, factoring services (i.e., debt collection services), mutual funds, housing finance, venture capital, credit card business, etc. RBI has however advised banks to maintain an arm's length in business relation with subsidiaries.

21. The supervisory structure and methods have also undergone sea-change. Apart from on-site and off-site surveillance by the RBI, the system now lays greater reliance on the role of external auditors, as in the United Kingdom.

22. Thus gradually, the reform process has attempted to bring about qualitative changes in the Indian banking system; achievement of quantitative targets is not the main goal now. This has led to creating the awareness of healthy banking almost at all levels of the banking establishments, replacing to a great extent a sense of public sector complacency. Some sceptics have reservations on the reported achievements of banks [Sinha and Doshi, 1998] but no yardstick of success or failure in social affairs area is foolproof. It is, however, agreed that several problems still remain. The system is yet not fully prepared to face the risks in a free market environment. Some of the important risks are the following:

- i) *Interest Rates*: When interest rates were fixed by RBI, the matter was very simple - rather there was no decision taking involved at the level of banks. Now with freeing of interest rates, a view has got to be taken about the future trends considering various macro - economic factors, and deposit rates, lending rates and asset - liability maturity structure have to be decided by bank managements independently. Wrong decisions will result in loss - say, paying high interest rates for a long period on deposits just to attract them to reach a target or improve balance sheet size may prove costly if lending rates fall after a few months.
- ii) *Exchange Rates*: In the absence of fixed interest rates one must be able to read or forecast reasonably the direction of movements in the values of various currencies and quote spot as well as forward rates accordingly, simultaneously hedging one's own position also is important. Errors prove very costly and some renowned banks in the world have suffered huge losses because of speculation by the dealers in this area.
- iii) *Capital Raising*: Banks have to anticipate their requirements of additional capital, plan expansion of their loan portfolio, determine the timing of their entry into the capital market to raise money. Mistakes will result in unduly high cost of resource raising.



- iv) *New Products*: Pricing of these products, particularly derivatives like swaps, options, futures, while selling to the customers is a highly technical subject and errors have serious financial implications.

Likewise in a number of other areas, the banks will have to face complexity because of deregulation and competition. (Please refer also to Para 44 below).

#### *Committee on Banking Sector Reforms*

23. The Government of India therefore felt towards the end of 1997 that the time was ripe to take a pause to look ahead and 'chart the reforms necessary in the years ahead so that India's banking system can become stronger and better equipped to compete effectively in a fast changing international economic environment'. Another committee specifically called Committee on Banking Sector Reforms was accordingly constituted on December 26, 1997 under the chairmanship of the same M. Narasimham. We may refer to this Committee as Narasimham Committee II. The terms of reference of the Committee were as follows:

- (i) To review progress in reforms in the banking sector over the past six years, with particular reference to the recommendations made by the (Narasimham) 'Committee on the Financial System' (Narasimham Committee I) in 1991.
- (ii) To chart a programme of banking sector reforms, necessary to strengthen India's banking system and make it internationally competitive, taking account of the vast changes in international financial markets and technological advances and the experience of other developing countries in adapting to such changes.
- (iii) To make detailed recommendations in regard to banking policy - its institutional, supervisory legislative and technological dimensions.

24. The Committee submitted its *Report* in April 1998. It has made a wide range of recommendations to consolidate the reform process commenced in 1992. The proposed reforms focus on improving the systems, productivity, efficiency and profitability as also on providing greater operational flexibility and functional autonomy in decision-making. In the introductory chapter of the *Report*, the Committee has observed that while the 'arithmetics' of 1991 recommendations in relation to various ratios, rates and accounting have been accepted and put through, the same measure of progress has not been made with regard to structural and systemic aspects of the reform agenda outlined in the *Report*. In some cases, the approach adopted to solve identified problems has differed. Global financial integration would call for a greater measure of competitive efficiency in our financial system - particularly on the background of our intention to move towards capital account convertibility. The recent developments in East and South East Asia have only underscored the importance of a strong domestic financial system. Weak banking policies and practices and consequent fragility of the financial system can have a serious destabilising influence. The market or asset price risk of both foreign assets and domestic investments is now quite considerable (because of volatility in exchange markets and use of interest rate variations as instruments of monetary policy). The Committee has added that action on strengthening the foundations of the system by improving asset quality; enhancing capital and improving profitability need to go along with structural changes in the system.

25. The major recommendations in the *Report* are summarised below:

#### *A. Strengthening the Banking System*

Internationally accepted measuring rod of 'CAMELS' - the acronym which stands for Capital adequacy, Asset quality, Management,

Earnings, Liquidity and (internal control) Systems - provides a framework for evaluation of the current strength as well as direction to proceed further.

#### *Capital Adequacy*

- i. There should be 5 per cent weight for market risk for government and approved securities as against zero risk weight presently. (In other words, while considering capital adequacy, risk element in holding government and government approved securities should be taken into account).
- ii. The risk weight for government guaranteed advances should be the same as for other advances (for future advances).
- iii. Foreign exchange open position (i.e., 'overbought' or 'oversold' position as against 'Square' position in respect of foreign currencies)<sup>4</sup> should carry a 100 per cent risk weight.
- iv. The capital adequacy ratio for banks should be raised from present 8 per cent to 10 per cent in a phased manner by the year 2002. In the case of weak banks, it may be pegged higher on (de)merits.

#### *Asset Quality*

- v. Government guaranteed advances, which have turned sticky, should also be classified as NPAs.
- vi. No further capitalisation of banks be undertaken from the government budget. (So far government has contributed about Rs 20,000 crore on account of this by way of recapitalisation bonds).
- vii. The objective should be to reduce the average level of *net* NPAs for all banks to below 5 per cent by the year 2000 and to 3 per cent by 2002 (for banks with international presence, these percentages should be in respect of gross NPAs). [Net NPAs = Gross NPAs

*minus* (i) provisions made for NPAs, according to RBI norms, (ii) interest due but not received, (iii) claims received from Deposit Insurance and Credit Guarantee Corporation and Export Credit Guarantee Corporation pending final adjustment, and (iv) part payment received from borrowers pending final settlement].

- viii. To take care of hard core NPAs, an Asset Reconstruction Company (ARC) should be established by a bank / a group of banks to which bad assets should be transferred at an agreed price to be paid for by way of NPA swap bonds guaranteed by government. For this stamp duty rates should be minimal and tax incentives should be provided to banks.
- ix. While the share of directed lending may not be reduced, to bring down the future high level of NPAs in such lending, the beneficiaries under government-sponsored credit linked schemes should be identified by branch managers (and not by government departments/politicians). The Committee has reiterated the point made by the first Committee that the pursuit of the redistributive objective should use the instrumentality of the fiscal system rather than the credit system.
- x. Rules for provisioning against standard, sub-standard and doubtful assets should be changed in keeping with the international practice and consideration should be given to make such provisions tax deductible.
- xi. Asset-liability management techniques and risk management techniques like 'value at risk' should be adopted by banks. (The dangers to liquidity and solvency, of a mismatch between assets and liabilities either in terms of currency maturity or asset value have been brought home by the recent experience of banks in East and South-East Asia). Sometimes hedging instruments (derivatives like swaps, futures, options) themselves generate risks.

- xii. There should be full disclosure of connected lending (to Groups, associates, interested parties, etc.) and lending to sensitive sectors.
- xiii. An independent loan review mechanism, especially for large borrowal accounts and system to identify potential NPAs should be instituted by banks. There should be no recourse to any scheme of debt waiver in view of its serious and deleterious impact on the culture of credit.
- vii. Remuneration structure of Chief Executive Officers (CEOs) and full-time directors should be delinked from civil service pay scales and should be decided by the board of directors.
- viii. Vigilance machinery and vigilance manual for banking industry may be separate from those for government departments and public sector undertakings in general.

#### *Earnings and Profitability*

The Committee has pinpointed a number of areas where expenses can be reduced and earnings can be increased.

#### *B. Management and Structural Issues*

- i. It would be appropriate if management committees of banks are reconstituted to have only full-time functionaries in it and decisions taken by these committees could be put up to the board of directors for information.
- ii. It would be appropriate to induct one or more additional full-time director(s) on the boards of banks (depending upon the size).
- iii. The statutory auditors for public sector banks may be selected by the board instead of by RBI.
- iv. Recruitment and manpower at whatever levels should be left to the managements of banks.
- v. Voluntary retirement schemes (VRS) may be introduced to reduce overmanning, wherever necessary.
- vi. Remuneration structure at managerial levels, particularly in the case of profit-making public sector banks which have gone public, may be left to the decision of the board of directors.
- ix. Development Finance Institutions (DFI) should, over a period of time, convert themselves into banks; there should ultimately be only two forms of intermediaries - banking companies and non-banking finance companies (NBFCs).
- x. Public sector banks need to be restructured as recommended in the first *Narasimham Committee Report* (see para 11(ix) above).
- xi. Mergers between banks, between banks and DFIs and NBFCs should be based on synergies and make sound commercial sense. Mergers should not be only mergers of balance sheets but should lead to rationalisation and right-sizing. Mergers should not be seen as a means of bailing out weak banks.
- xii. A case by case examination of the weak banks<sup>3</sup> should be undertaken to identify those which are potentially revivable with a programme of financial and operational restructuring. A Restructuring Commission may be appointed to consider various options including restructuring, merger, amalgamation or even closure.
- xiii. Granting functional autonomy to banks with accountability within the framework of purposive, rule bound, non-discretionary prudential regulation and supervision, should be considered by the government. This is necessary because the banks will have to go to the market to raise capital. In that context, the current requirement of minimum government shareholding of 51 per cent in nationalised banks and RBI shareholding of

55 per cent in State Bank of India needs to be reviewed and may be refixed at 33 per cent. Consequent on this, the appointment of Chairman and Managing Director (CMDs) should be left to the Boards of the banks and the Boards themselves should be elected by shareholders and not appointed by Government.

#### C. Others

- i. The requirement of minimum net-worth of Rs 25 lakh for registration of NBFCs should be progressively enhanced to Rs 2 crore.
- ii. Duality of control on urban co-operative banks (by state government and RBI) should be dispensed with and supervision over them should primarily be the task of the Board of Financial Supervision (BFS).
- iii. Insurance premium being paid by banks for deposit insurance, which is presently at 'flat' rate for all banks should depend upon the ratings of various banks, i.e., banks with lower rating should pay higher premium.
- iv. There must be defined prudent limits beyond which banks should not be allowed to rely on the call money market; access to call money market should be essentially for meeting unforeseen swings and not as a regular means of financing bank's lending operations. For orderly movements in the inter-bank call money market, RBI should enter the market through short term Repos (i.e., initial sale of securities/Treasury bills and then repurchase at an agreed rate) for as short a period as one day.
- v. The lock-in period for money market instruments including fixed deposits, certificates of deposits (CDs), commercial paper (CPs), etc., may be reduced to 15 days in the first instance so that an active secondary market can be developed.

- vi. The forex market, the money market and the securities market should be allowed to integrate.

#### D. Regulation and Supervision

- i. An important aspect of regulatory concern should be ensuring transparency and credibility. There should be positive penalties both for the inaccurate reporting to the supervisory authority or inaccurate disclosures to the public, and transgression in the spirit of the regulations.
- ii. An integrated system of regulation and supervision be put in place to regulate and supervise the activities of banks (including urban co-operative banks), financial institutions and non-banking finance companies. Since the functions of regulation and supervision are organically linked, the existing agency The Board for Financial Supervision (BFS) may be renamed as the Board for Financial Regulation and Supervision (BFRS). This Board should be given statutory powers and should be composed of professionals. However, to retain an organic linkage with RBI, the Governor, RBI should be head of the BFRS.

#### E. Legal and Legislative Framework

The evolution of the legal framework has not kept pace with the changing commercial practices and with the financial sector reforms. The following areas need to be looked into in particular (a suggestive list only).

- i) Transfer of Property Act.
- ii) Powers to special tribunals set up for debt recovery.
- iii) Law of mortgages including securitisation.
- iv) Stamp Act including registration fees.
- v) Contract Act in so far as it applies to bank guarantees.
- vi) Sick Industrial Companies Act.
- vii) Evidence Act (in view of computerisation).
- viii) Law regarding authenticity of electronic funds transfer.

- ix) Banking Regulation Act, Bank Nationalisation Acts, RBI Act, SBI Act, (for share capital, supervision, management, etc.).
- x) Contract Labour Act.
- xi) Income Tax Act (Re: deductions for provisions made).

#### *Implementation of Recommendations*

26. The members of the Committee are acknowledged experts in the field of banking, finance and economics (S.S. Tarapore, Former Deputy Governor, RBI, D. Basu, Former Chairman, SBI, Deepak Parekh, Chairman of Infrastructure Development Finance Company and some other companies, Kotiaiah, Chairman, National Bank for Agriculture and Rural Development (NABARD), C.M. Vasudev, Special Secretary, Banking Division of Ministry of Finance, among others). Most of the recommendations are well thought out and many of them (particularly those listed at 25A (i), (ii), (iii), (iv), (v), (x), (xi), (xii), (xiii); B(iv); C(i), (iv), (v), (vi) have been already fully/partially implemented or accepted for implementation in a phased manner. This, of course, by itself does not mean much unless the implementation is followed through.

27. It will however be observed that the recommendations accepted for implementation are those, which do not affect the basic structure in relation to (a) Organisation and human resources area, (b) Power or authority, and (c) Legal framework. Also how to tackle in a practical manner the hardest problem of reducing the level of NPAs to below 5 per cent by the year 2000 and how to increase the capital base of weak banks in keeping with the level of their risk assets, are matters in which the recommendations made are not very clear and need deeper thought. In addition to these, the Indian banking system will have to remain not only uptodate about developments and innovations in their area within the global scene but also be pro-active, if it has to find a rightful place in the international banking field. The following paragraphs deal with the above issues.

#### *Non Performing Assets (NPAs)*

28. As explained earlier in para 8, a high level of NPAs affects profitability. Along with it are affected the credibility and financial soundness of a bank or a financial institution, and it is the primary duty of every banker to see that the money lent by it comes back to it with reasonable interest. The reasons for the sorry state of affairs in this regard are well known.

29. It has been reported that Moody's Investor Services has classified India's average bank financial strength rating as 'very weak'. The country stands sixtieth among the financial systems of 73 countries that were ranked. On a range of A to E, India is in the 'E plus' slot [*Business Standard*, 1998(a)]. This is mainly because of the high level of NPAs. According to the RBI Report on *Trend and Progress of Banking in India, 1997-98*, the percentage of gross NPAs as a percentage of advances of Public Sector Banks (PSB) has declined from 17.8 per cent in 1996-97 to 16 per cent in 1997-98, while gross NPAs as a proportion to total assets of PSBs declined from 11.8 per cent in 1992-93 to 7 per cent in 1997-98. The incremental NPAs to advances - both gross and net - during 1997-98 are reported to be less than 5 per cent. There is, however, a feeling in the market that many of the financial intermediaries have been camouflaging non-performing assets by giving new loans to service old debts (This is known in the market as 'evergreening'). At the same time, there is also a view that loans not serviced by companies suffering from industry-induced recession should be treated as a separate class, called 'Short-term reversible NPAs', particularly where the banks are otherwise well secured and companies have good credit record [*Business Standard*, 1998(b)].

30. It is a general belief in the government circles that inadequate appraisal at the time of initial loan sanction is the primary reason for a loan/advance to turn into a non-performing asset. My personal view is that even if while making an advance, all parameters are found to be satisfactory, the advance may turn into an NPA simply because it was not followed up throughout. In

other words, it is necessary to watch the developments and problems of each and every borrower from *day one* till the time the money lent is returned, to assist the borrower to remain on course mid-stream if problems crop up, and to do everything possible to see that the money is not lost. This is not being done in its true spirit. I have been emphasising on bank managers that with regard to advances, they have to play a role of a *Mali* (gardener), who personally watches the progress of each and every flower plant and does everything necessary to see that the plant does not fade. Unfortunately, this does not happen and the banks come to know of the problems many times when things are out of their hands. Managers, dealing staff, inspectors, auditors change places and their replacements take time to understand and know all borrowers. As mentioned earlier in para 5, this crucial aspect of recovery was almost sidelined after the nationalisation of banks in 1969 till the introduction of economic reforms in 1991-92. Loan *Melas*, loan waivers, political pressures, bureaucratic interference, and misplaced priorities of the bank managements have done a great damage. The legal system, as it exists today with all its constraints, is ineffective or unhelpful, to say the least. In fact, the experience is that the borrowers lose their tension or become relaxed, the moment the banks go to the courts of law against them for recovery; while units turn sick, promoters are found to be healthy.

31. The main action points recommended by the Committee with regard to NPAs are:-

- A. Beneficiaries under sponsored credit-linked schemes should be identified by branch managers (and not by government departments).
- B. To take care of hard-core NPAs, Asset Reconstruction Company (ARC) should be established to which bad assets should be transferred at an agreed price.
- C. There should be no recourse to any scheme of debt waiver, in view of its serious and deleterious impact on the culture of credit.
- D. Changes should be brought about in certain legal enactments.

32. *Out of the Above:*

- A. To stop local authorities and bigwigs from taking up or sponsoring loan proposals to banks, circulars can be issued but will not be implemented in practice because of basic culture of political patronage in most of the areas, developed over the years in our country (not necessarily after Independence).
- B. Considering the size of NPAs with public sector banks (above Rs 45,000 crore) [according to RBI: *Report on Trend and Progress of Banking in India, 1997-98*] and expected additions, funding of ARCs is going to be a big problem, and even if they issue bonds for the estimated value of debts transferred, the bonds will have to be serviced only out of recoveries - which is again the basic problem because of legal system delays. ARCs will most likely be staffed out of the existing personnel of banks and therefore, we can hardly expect any innovative approach. It may only mean keeping bad eggs out of the main stock somewhere else.
- C. Prohibiting loan waivers by law will need great political courage and hardly any political party has the courage to accept that or is convinced that there is something wrong in waiving loan recoveries.
- D. Changes in the legal framework as suggested by the Committee can take at least two years, presuming that all concerned in the concerned ministries (Finance, Industry, Agriculture, Law, etc.) take things seriously and work in a time-bound manner.

Not much improvement can therefore be expected by the year 2000.

33. Then what do we do which is practicable today? The problem of NPAs will have to be looked at from two angles, viz. - existing NPAs and fresh accruals.

*Existing Hard Core NPAs*

- i. Special courts with emergency recruitment of judges (like emergency commissions in the army), if necessary, should be formed - as many as necessary - to decide on all pending cases in a time-bound manner - say within a year or so. Whether the decisions of these court can be made 'unappealable' should be examined from the angle of constitutional rights.
- ii. Boards of banks and senior officials of the rank of Deputy General Manager and above should concentrate on settling old debts by way of compromise proposals. The officials should follow committee approach and broad guidelines should be given to them as to how to go about.<sup>6</sup>
- iii. For staff accountability, as much lenient a view as possible should be taken unless *prima facie* there are reasonable basis for suspecting the presence of fraudulent intentions/motives.
- iv. Incentives should be announced for staff for their performance in the recovery area.
- v. The bank staff should be clearly advised that if the level of NPAs is not brought to a certain level (depends upon each bank) by March 31, 2000, the bank will be taken into liquidation/merged as considered appropriate.
- vi. As a result of fast track cleaning of balance sheets, if any public sector bank suffers shortage of capital for Capital Adequacy purposes, and since the bank will be unable to float shares/bonds in the capital market because of its low image, Government of India should, as one time last resort operation, make loan of quasi-equity nature at nominal interest - repayable 10 years after March 31, 2000.

*To Avoid/Minimise NPAs in Future*

- i. Public education through electronic media as well as newspapers should be undertaken in the form of a campaign to emphasise how unscrupulous defaulters are enemies of the nation/are anti-social. At the same time, thought ought to be given to measures to be adopted in case a borrower faces genuine difficulties to repay bank loan.
- ii. Defaulters should be debarred from holding any public office (right from Gram Panchayat to Lok Sabha) till such time as they have clean certificate from lenders (they may be eligible for concessions in the form of interest waivers or compromises, like any other citizen).
- iii. While handing over charge by bank officials responsible for loans and advances, the status of each and every account should be briefly recorded by the official handing over charge and accepted by the official taking over (This could be apart of loan review mechanism).
- iv. The practice of banks to stop further financing of borrowers, who have failed in their obligations to pay on time, should be reviewed on a case by case basis because many times it happens that shortage of funds at crucial stage ruins the project and in turn the doubtful debt turns into a loss asset.
- v. Bank officials, who are found to be careless at the stage of initial credit appraisal and/or in the course of follow-up, should be subject to penalty without formal procedure of disciplinary action if a committee comprising three officers senior to him, one of whom should be of the choice of the affected official, so decides (Formal disciplinary action procedure comprising show-cause notice, charge sheet, enquiry, etc., is a long drawn affair and takes at times three to five years).
- vi. Government officials, politicians and others, who sponsor applications or pressurise for loans, should be required to stand guarantee for the borrowers, as a rule.



- vii. When borrower shifts from one bank to another, the rule to produce a 'no-default' certificate from the previous bank, should be strictly enforced.
- viii. Amendments to various laws as suggested by the Narasimham Committee (II) and as recommended by the RBI should be carried out in a time-bound manner.
- ix. 'Narrow' banking as suggested by Tarapore Committee on Capital Account Convertibility should be applied *initially* for a year to banks whose net NPAs are more than 8 per cent, and position should be reviewed for further course of action thereafter. Till the year 2002, this percentage should be brought down to 5 *in stages*. There is a clear need for a greater debate on the concept of 'narrow' banks and how long a weak bank should be compelled to remain 'narrow'.
- x. It should be ensured that no officer is posted as a branch manager without undergoing successfully an adequate and effective training programme in credit appraisal and credit management.
- iii. Fear of the leaders of strong trade unions about the distinct possibility of their losing the power and base built over years.
- iv. Apprehension of bank customers (both depositors and borrowers) about the possible problems of new relationships.

Not that the above problems cannot be/should not be resolved but the question is whether the effort - which is going to be a long drawn out process in a democracy - is worth it. I do not think it is. We should carve out three/four large banks of international character and thereafter let the competition among various banks decide the appropriate alignments on the basis of fitness to survive. Our concentration should be on how to deal with weak banks. In that context, the recommendation to appoint a Restructuring Commission (Para 25, B(xii)) should be followed up because its decisions will be easy to sell on logical and economic considerations.

#### *Restructuring of Public Sector Banks*

34. The talk of restructuring banks is going on, in fits and starts, for more than 25 years - but without any result. In fact, before both the Narasimham Committees made recommendations about the manner in which the banks should be restructured, they should have explained (in the *Report*) the problems faced so far and how they could be resolved. As I see it, the problems are:

- i. Fear of some staff losing jobs because of the need to close down certain branches/offices/regional headquarters.
- ii. Fear of losing local identities established by banks operating predominantly in a particular region and/or manned by people coming from a particular geographical area (Say: Punjab and Sind Bank, Andhra Bank, Bank of Maharashtra, United Bank of India, Vijaya Bank, Corporation Bank, etc.)

35. The Committee has made certain recommendations suggesting that certain powers may be vested in the board of directors of banks; for example, appointment of statutory auditors, remuneration structure at managerial levels including that of CEO, Executive Directors, etc. This sounds fine but an important precondition is that the boards should be professional and consist of people who have good background of the economy, business, industry and agriculture, besides a reasonable background of banking and finance. There is hardly a board presently fulfilling these criteria and in that case, much will depend upon the personal view of the Chairman and Managing Director. Further, so long as a bank is a public sector undertaking in which the Government holds 51 per cent or more shares, certain degree of relativity will have to be maintained in relation to appointments in government proper and in public sector undertakings. As a long term objective to be fulfilled in 5 to 10 years, after creating necessary environment, this recommendation is worth pursuing.

36. The main problem is that of functional autonomy to banks, i.e., freedom to work without day-to-day interference and detailed guidelines from authorities. This is desirable but means loss of power of government functionaries over the CEOs of public sector banks. As owners, government can ask for any information from public sector banks and that cannot be stopped. But it should be that much only (i.e., submitting *post-facto* information on matters agreed to). Every year, a Memorandum of Understanding (MOU) should be agreed to among a public sector bank, the RBI and the Government of India, and once that is done, only periodical reporting should be there. It has, however, at the same time to be conceded that total autonomy will not be possible because government will have to answer questions in Parliament on various aspects of functioning of public sector banks. In the ultimate analysis, much will depend upon 'who is the appointing authority of the CMD'? The moment, government's shareholding goes below 50 per cent, the scenario will change. But looking to the strength of trade unions and weakness of the ruling political parties, it appears to me almost impossible at present and in the near future to reduce government shareholding to below 50 per cent. In the circumstances, only peripheral changes like reconstructing of management committees, appointing more than one full-time Director, introduction of voluntary retirement scheme, separate vigilance manual for banks (Para 25, B(i), (ii), (v), and (viii)) can be introduced without much resistance. Full autonomy to banks - which means shedding full authority by government over banks where they hold majority shares - may have to remain a dream to be realised only in due course, whether we like it or not.

37. As regards urban co-operative banks, the Committee has recommended removing of dual control on them and vesting the control in the Board of Financial Supervision. It is undoubtedly a sound recommendation but since it involves abandoning of power and privileges by state governments, implementation is bound to meet stiff resistance. It is thus going to be a target achievable only over a period of 5 to 10 years; action, however, must begin now.

38. Another recommendation made by Narasimham Committee is to charge higher premium for deposit insurance (Para 25, C(iii)) on the basis of ratings. This recommendation is fine from the point of view of Deposit Insurance and Credit Guarantee Corporation (DICGC) but in what way does it help the weak banks? It is a sort of punitive measure, which will cut into already depleted earnings of weak banks. *The approach to reforms should not be to penalise the weak and withdraw facilities from them.* A relatively mild, yet at the same time an effective action is needed. The route should be, as said earlier, through entering into certain understanding with weak banks, follow up the progress and nurse them. In incorrigible cases, just close them by liquidating or merging.

39. An important recommendation made by the Narasimham Committee is to put in place an integrated system of regulation and supervision of the activities of banks (including urban co-operative banks), financial institutions and non-bank finance companies. The new proposed board should be called the 'Board for Financial Regulation and Supervision' and should have statutory powers. To maintain an organic linkage with the RBI, the Governor of RBI should be the formal head of the Board. There are two issues here - one how can one ensure that the new Board will not be a sort of old wine in a new bottle as it, more or less, happened in the case of the existing BFS. Pressures will be there to man the Board principally from among the RBI officials. It is not at all the contention of the author that RBI officials will not be competent - rather he is having a high opinion about their capability and integrity on the whole; but how can one bring in the new air, new way of looking at the problem, in short, new culture and approach. A suitable mix of senior officials from the concerned sectors, Reserve Bank of India and academicians will have to be placed at the top management level (Deputy General Manager onwards) and the Chief Executive should have a reputation of a forward-looking and innovative finance professional with both national and international exposure. After all, a supervisor can earn respect, only if the financial community accepts his superior acumen and realism. The regulatory

framework should set out the basic superstructure by codifying the regulations and leave it to the banks to strengthen their own internal controls. Violation of norms should invite penalties, and suitable provision should be made therefor, initially itself. As S.S. Tarapore, former Deputy Governor, RBI said:

'There should not be excessive focus on whether the regulator for banks and non banks should be within or outside RBI. What really matters is not where regulation and supervision are undertaken but how it is conducted' [Tarapore, 1998(a)].

40. A more important issue in this regard is the appropriateness of combining monetary policy function and regulatory function in one authority. Presently they are under one roof but there are specific safeguards to ensure that the functions do not impinge on each other. In this respect, the following observation by S.S. Tarapore is apt:

'The question as to whether financial regulation and supervision should be in an institution separate and distinct from the institution which deals with monetary policy does not yield any definitive answer. While there is no overwhelming experience in favour of one model or the other, what is of importance is not merely the institutional framework but how monetary policy, on the one hand, and regulation and supervision, on the other, are conducted and whether there are sufficient safeguards to ensure that the two functions do not overarch on each other. Where the two functions are very closely integrated, the supervisory authorities could weigh on the monetary policy to make it less costly for banks to comply with prudential norms. Now, if the two functions are totally separated, the provision of liquidity to meet sudden and temporary requirements of a bank may be difficult to execute in an efficient manner. While this is so, in a system where the two functions are totally distinct, the moral hazard problem of manipulation of interest rates in favour of banks would not take place. The reasons for keeping some link between monetary policy and regulation/supervision is that the Central Bank is integrally linked with the payments system and payments risks are also a major concern of the supervisory authorities. Again, it is

sometimes difficult to discern a liquidity crisis from a solvency crisis and there is, therefore, merit in keeping some link between the two functions' [Tarapore, 1998(b), p. 56].

41. The last important recommendation of the Committee on structural issues is that Development Finance Institutions (DFI) should, over a period of time, convert themselves into banks; there should ultimately be only two forms of intermediaries - banking companies and non-banking finance companies. Possibly this is based on the recommendation of the Working Group for harmonising the role and operations of DFIs and banks (under the chairmanship of S.H. Khan, Former Chairman of the Industrial Development Bank of India), which submitted its *Report* in June 1998. The Group had recommended a progressive move towards universal banking so as to be able to compete in a deregulated and increasingly global market place. Presently, DFIs have certain advantages in terms of regulatory framework (Statutory Liquidity Ratio (SLR), Cash Reserve Ratio (CRR), Priority Sector lending, etc.), raising funds from the capital market, etc., and of course some handicaps in terms of branch network, clearing arrangements, etc. The proposal to remove structural barriers between DFIs and banks is not fully free of reservations because there are merits in specialisation and, in many countries, DFIs and banks continue to exist separately as viable institutions. The main argument in favour here appears to be to derive economies of scale and scope. It is suggested that RBI should prepare a discussion paper on the role of banks and DFIs, and what is involved in converting DFIs into universal banks. The conversion rules must be strictly defined and appropriate time-frame be prescribed. The transition should be such that at each stage as the DFIs are provided facilities, certain obligations should be imposed.

#### *Other Important Areas*

42. Besides what is mentioned in the foregoing paragraphs, there are three very important areas to which due attention has to be given if the

banking sector reforms are to succeed and the banks are to stand on sound footing even in adverse circumstances. They are:

- i. Improvement of technology,
- ii. development of risk management techniques, and
- iii. human resources management.

They have indeed been referred to in the *Report* but deserve further comments.

### *Technology*

43. It is generally believed that improvement in technology means computerisation and, once all branches, regional offices and head offices are computerised, no frauds will take place, corruption will disappear, customer service including promptness of actions will improve and everything in banks will be fair and lovely. This impression is erroneous, to say the least. 'Use of technology' means doing everything which will contribute to efficiency, profitability through improved customer service and reduction of costs, capacity to offer various extra services by developing newer products and new delivery channels, and, generally speaking, introduction of different ways of performing the usual functions. This cannot be done just by installing most sophisticated or state of the art machinery or infrastructure at high cost. Even hardware installation has to be done in stages with full mental involvement of the staff concerned, and taking into account power supply as well as availability of maintenance/repairs service at short notice. Every bank must have a Technology Department (manned properly) to watch *on an on going basis* what is the new or 'in' thing available in the world, (not only in respect of machinery or hardware but in terms of processes and procedures), consider which practices and systems should change in the interest of overall efficiency and which new products are required to meet customers' expectations in an environment of ever-increasing competition. Customer profile of every bank will make a difference. Improved technology application also obviously has to cover management information system and the manner in which skills and attitudinal pattern can

be improved. Legal aspects relating to banking automation, different audit and inspection methodology, storage of data systems and such relevant issues have also got to be thought of simultaneously. There is no dearth of literature on the subject and there are no two opinions that the banking system can not wait any longer to modernise itself. The point is that various actions have to be taken in an integrated manner, due regard has to be paid to the customer profile and expectations, cost-benefit, physical infrastructure, and human skills available. I am not sure whether the recent message from the Central Vigilance Commission that 70 per cent of banking business should be computerised by the year 2001 across the board is realistic; the banks can do so if the major portion of the entire system is as efficient. Also if the objective is eliminating/reducing corruption, technology is not the solution. Some frauds can definitely be reduced but simultaneously, one has to beware of a different set of frauds. The Technology Department as proposed should be under a full time official of the rank of General Manager and the person to be posted as In-charge should also be selected specifically from within or outside, taking into consideration his own attitudes, prejudices and enthusiasm not only to keep abreast of what is happening around but to think ahead.

### *Risk Management*

44. Liberalisation means responsibility and risk taking. While banking business which involves, lending money has been risk-prone since inception, in the new scenario there are a number of areas to which banks are getting exposed and hence risk detection and quantification systems assume importance. If not attended to seriously and timely, growth could be crippled as was experienced recently by ASEAN (Association of South-East Asian Nations) countries and evidenced by bank failures in the world during the last few years. It is reported that at least a dozen countries over the past 20 years have sustained banking losses or government bail-outs, amounting to 10 per cent or more of gross domestic product [Herring, p. 8]. In banking, views have got to be taken regarding interest rate

movements, exchange rate movements, market movements in respect of derivatives like futures, options, swaps, etc., Central Bank's approach and policy direction, political developments, tolerable level of asset-liability mismatch, consumer preferences, outlook for various industries, etc., in addition to the traditional view-taking on borrowers' credit-worthiness. Technical tools like 'Value At Risk (VAR)' and 'Stress Liquidity Tests (SLT)' are available. For example, VAR gives an estimate of the maximum loss in the value of a portfolio/financial position over a given period with a certain level of confidence. With a reasonable level of discretionary loss limits and an independent risk management unit, such system could prove to be effective. SLT can provide information on the different business scenarios under which the bank's position would be most vulnerable. Having said this, it must however be emphasised that much also depends on the people, who run the risk management systems. One cannot depend too much on theory; market feel and sensitivity are equally important. Some big investment banks now want to rely less on models and more on market survey skills of risk managers. As an expert in this area once remarked, 'It is a harsh discipline; when markets move against them, firms must reduce positions and take the pain on the chin. That at least means that problems do not fester for ages' [*Economic Times*, 1998, p. 13].

45. In view of the above, two important points deserve consideration. One is that as in the case of 'Technology', every bank should organise a team of professionals under a competent and experienced senior banker exclusively to monitor risk exposure in various activities and decisions. Different methods of risk management must be mixed and matched according to application. This inevitably means efficient and timely data integration and obviously reliable information system. Unfortunately, Indian banks presently fall much short of what is desired and necessary. Another aspect is the role to be played by supervisory agency. In the present conditions, the RBI must take a lead and give detailed instructions on various facets of risk management as they have done recently in respect of asset-liability

mismatch management [RBI, Bulletin November 1998, p. 943]. Secondly, to ensure transparency, disclosure norms should be reviewed and relaxed on a continuing basis. Thirdly, the supervisory authority should identify banks that are becoming heavily exposed to a major shock, and assess internally the probability of a particular shock occurring. Fourthly, regulatory restrictions on diversification should be reduced to counter vulnerability to disaster. Finally, while accounting practices, provisioning norms, etc., should be standardised and there should always be effort on our part to encourage/force adoption of the best international practices, the idea or view about any bank as 'too big to fail' should not be encouraged.

#### *Human Resources Management (HRM)*

46. To implement all the Narasimham Committee recommendations discussed in this Paper, a bank needs *motivated and skilled staff with professional outlook and changed mind-set*. This appears to be a tall order at the moment but it is just not possible to get quick results without it. Unfortunately, Human Resources Management (HRM) area is one of the weakest in most of the public sector banks. It would not be an exaggeration to say that the need to create staff of the quality described above is not adequately appreciated by the top management and/or how to proceed in the direction is not much understood. Keeping staff satisfied by meeting even their unreasonable demands and sending a certain percentage of total staff every year for training somewhere (without due consideration to their past experience and future posting), are deemed to be equivalent of HRM. Training is given more as a reward and less to meet functional requirements. HRM encompasses almost everything affecting personnel, i.e., initial recruitment, induction, placement, assessment of strengths and weaknesses of individuals and their expectations from the organisation, training, transfers, promotions, system of rewards and punishment, building up a positive image about management (whether fair and impartial or partial, biased and susceptible to external influence/pressure), service conditions, superannuation benefits, and, last but not the least, the finesse with which

sensibilities of each and every member of the staff are handled. On a scale of 0 to 10, most of the public sector banks will rank, in the opinion of the author, somewhere about  $\pm 4$ . Granting that none in the world will qualify for 9 or 10 rating, effort should be to reach 6 to 7 rating in the next two to three years. This is not easy but there is no way. Much will depend in this respect on the attitude and personality of the Chief Executive and the top management team. It should not at all be forgotten that HRM has got to be improved to bring about long-lasting and structural changes in the working of banks.

47. For immediate implementation, a number of recommendations have been made by the Narasimham Committee II in respect of surplus staff, recruitment at lateral level, composition of management committee, use of contract labour for some 'non-banking' jobs, remuneration of staff and the Chief Executive, unsavoury publicity to mistakes/investigations, etc., and most of them are welcome and should be implemented.

#### *Concluding Remarks*

48. The Committee on Banking Sector Reforms has provided an agenda for the future reforms of the banking sector. The recommendations are timely and if Indian banking has to play its due role in the domestic economic growth process and as a player in global financial world, the implementation (of the recommendations) brooks no delay. *Reforms cannot be painless*. At any cost, our banking system will have to rise to the challenges of the next millennium. Various comments and suggestions have been made in this paper. The following however need to be emphasized.

A. The Chairman and Managing Director of a bank is the kingpin and his appointment should be made totally on considerations of professional expertise, exposure to the national and international banking, proven leadership qualities, integrity and image. Annual management audit should be introduced to check effectiveness of management.

B. Directors on the boards of banks should be appointed on the basis of their knowledge of business, industry and finance; directorships should not be distributed as rewards or patronage. This is necessary before autonomy in real sense is passed on.

C. Change of mind-set of the bank staff is the necessary precondition for the reforms to succeed in spirit and to last long. Technology improvement and attention to risk management are also important preconditions for success. These three areas, therefore need top management's attention on a priority basis.

D. Reducing non-performing assets of banks and treatment of weak banks on case by case basis are key areas needing deft handling. Various suggestions made in the Paper should receive due attention of managements of banks.

E. Banking sector has to be sensitive to the real economy. Technical measures such as capital adequacy, provisioning and accounting norms, reduction of SLR/CRR, etc., should not be considered as financial reforms *per se*, because in the ultimate analysis, the financial sector's role is to help the real economy. Depending upon the external environment, there may be need to go beyond technical remedies.

F. Penal action against banks will not be effective; rather education of staff, customers, trade unions, business community and politicians about why certain things must be done and some others must not be done will help in the long run.

49. I would conclude by quoting from an article titled 'Banking Reforms Elsewhere' by S.S. Tarapore:

'The second generation banking sector reform in India is not going to be easy. If other countries have had a bumpy ride, there is no way that we

can live in a make-belief world that would circumvent all these problems. We can no longer side-step sensitive issues as they must be debated head-on in a frank and constructive manner. It is only through disagreement, debate and dissent that we would be able to tackle the critical problems of the Indian banking industry. We cannot afford the luxury of wallowing in the bureaucratic brilliance of equivocation. Policy makers in India cannot afford to delay action on critical issues, however sensitive they may be' [Tarapore, 1998(c)].

#### ANNEXURE I

#### MEMORANDUM

#### COMMITTEE ON THE FINANCIAL SYSTEM

3. The terms of reference of the Committee will be as follows:

- (i) To examine the existing structure of the financial system and its various components and to make recommendations for improving the efficiency and effectiveness of the system with particular reference to the economy of operations, accountability and profitability of the commercial banks and financial institutions;
- (ii) To make recommendations for improving and modernising the organisational systems and procedures as well as managerial policies;
- (iii) To make recommendations for infusing greater competitive vitality into the system so as to enable the banks and financial institutions to respond more effectively to the emerging credit needs of the economy;
- (iv) To examine the cost, composition and adequacy of the capital structure of the various financial institutions and to make suitable recommendations in this regard;
- (v) To review the relative roles of the different types of financial institutions in the financial system and to make recommendations for their balanced growth;
- (vi) To review the existing supervisory arrangements relating to the various entities in the financial sector, in particular the commercial banks and the term lending institutions and to make recommendations for ensuring appropriate and effective supervision;
- (vii) To review the existing legislative framework and to suggest necessary amendments for implementing the recommendations that may require legislative changes; and

- (viii) To make recommendations on any other subject matter as the Committee may consider germane to the subject of enquiry or any related matter which may be specifically referred to the Committee by the Government of India.

Source: Government of India, Notification No. F 15(5)/91 - Bo.I published in Part II Section 3 (ii) of the *Gazette of India - Extraordinary* dated August 14, 1991.

#### NOTES

1. It may be useful to explain briefly the concept of NPAs and why they are considered a serious problem. NPAs are those loans given by a bank or financial institution where the borrower defaults or delays interest or principal payments. Banks are not only not allowed to book any income from NPAs on accrued basis as is the normal book keeping practice, but they have to keep money aside as a sort of provision which impacts profitability adversely. In line with RBI guidelines from time to time, the loans given by banks are classified as performing and non-performing for the purpose of income recognition and provisioning. Loan assets in respect of which interest and principal are received regularly are called standard or performing assets. Standard assets also include loans where arrears of interest and/or of principal do not exceed 180 days as at the end of a financial year. No provisioning is required for such loans. Any loan repayments which is delayed beyond 180 days has to be identified as an NPA. NPAs are further sub-classified into sub-standard, doubtful and loss assets. A loss asset is one where loss has been identified but the amount has not been written off wholly or partly. In other words, such an asset is considered uncollectible. There may be some salvage value.

The RBI has also laid down provisioning rules for the non-performing assets. This means that banks have to set aside a portion of their funds to safeguard against any losses incurred on impaired loans. Banks have to set aside 10 per cent of sub-standard assets as provisions. The provisioning for doubtful assets is 20 per cent and for loss assets it is 100 per cent. Increasing NPAs means that the funds locked are not being used properly or are not producing adequate returns. If a bank has high NPAs, then it may not be able to earn enough to pay depositors interest or repay their principal [Economic Times, Mumbai, 'What are NPAs? Why are they a problem?', November 23, 1998].

2. Broadly speaking, loans other than those made to governments or with government guarantee are treated as 100 per cent risk assets. Most of the public sector banks' capital was nominal in relation to their risk assets.

3. It is normal that the market price of investments on the Balance Sheet date may be less or more than their purchase price or book value. Conservative accounting principle is that investments should be shown at book value or market value, whichever is lower by charging the difference to profit. Many of the investments made by banks in government securities where their coupon rate was much less than at present (say 7.5 per cent as against say 12.5 per cent now) have considerably depreciated. The banks argue that since they intend to hold such investments on their portfolio till the date of their redemption in the normal cause, when they will get back full face value, there will not be any loss to them. Only such



each day (the exchange rates for transactions may be different). 'Overbought' position is where quantity bought exceeds the quantity sold and 'oversold' position is the other way round.

5. According to the Committee, a weak bank should be one whose accumulated losses and net NPAs exceed its net worth (i.e., capital and reserves) or one whose operating profit less its income on recapitalisation bonds [para 25(A)(vi) above] is negative for three consecutive years.

6. As Chairman of a nationalised bank the author had tried this with a reasonable success.

7. The concept of narrow banking briefly requires that only strong and efficient banks will be allowed to give commercial loans while weak banks will utilise their resources in less risky assets like government securities and inter bank lending.

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# ENVIRONMENTAL MOVEMENTS IN INDIA: SOME REFLECTIONS

V. Ratna Reddy

*This paper is an attempt to understand the reasons behind the popularity/success or failure of movements in contemporary India, which have environmental concerns as their objective at one stage or other. Against the backdrop of contemporary popular movements, this paper argues that the present trend is not healthy as the movements fail to integrate environment and development. Despite the rise in the number of movements and conflicts over environmental issues, concern for environment has remained peripheral for most of the contemporary movements. Though it is obvious that environmental issues get snowed under developmental issues at the grassroots and policy levels, the contemporary movements also seem to fail in addressing ecological aspects. The approach of these movements in India ought to be different from that of their counterparts in the developed countries. The environmental groups and the state need not always work at cross-purposes; they also can work in tandem in addressing the pressing problems.*

## I. INTRODUCTION

The concern for the present day environmental problems in most of the developing countries like India is of relatively recent origin. Even the recent awareness and concern for environmental protection at the policy level are donor-induced and, at the grassroots level, it is due to efforts by individuals and non-governmental organisations (NGOs). In the absence of ground level awareness and concern, environmental aspects have remained, more or less, peripheral to the contemporary social movements in India. Some of the contemporary movements, however, acquired the status of ecological or environmental movements in retrospect as these movements have widened their focus from basic survival needs to ecological concerns [Sethi, 1993; Gadgil and Guha, 1994]. In general these movements are often grouped under tribal or peasant movements [Shah, 1990] and also under new social movements [Omvedt, 1993; Wignaraja, 1993]. Some even title them as middle class or elitist movements [Shah, 1990; Sethi, 1993], the reasons being that ecological aspects are linked with the problems associated with peasants and tribals whose survival is attached to the status of natural resources, and that the problems or demands of the tribal as well as non-tribal poor are often articulated by the urban middle class and the elite. In the context of coalition between the affected people and the middle class spokespersons, the

real issues tend to get clouded as the debate is drawn into different forums in order to attract national and international attention [Sethi, 1993].

Environmental movements in India, therefore, are not necessarily for the 'green' or 'clean' earth or for saving mankind's heritage and endangered species as in the West, but for the very survival of the local poor [Rao, 1994]. Even among these ecological movements, only a few can claim success in achieving some of their objectives. On the other hand, the overwhelming popularity or coverage received by some of these movements overshadows the importance of other environmental problems which may be equally, if not more, strident. And the success of the movement is often linked with its popularity rather than the importance of the issue.

This paper is an attempt to understand the reasons behind the popularity/success or failure of those movements in contemporary India, which have environmental concerns as their objective at one stage or other. Some of the relevant questions in this regard are: (i) what are the characteristics of and conditions for successful movements in contemporary India?; (ii) to what extent do these movements address the environmental concerns in different circumstances?; and (iii) what are the factors other than environmental concerns that led to the success or failure of these movements?

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Though the extent of local support is vital for the success of any grassroots level movement, one hardly finds that the initiative for environmental protection in India comes from the people concerned. These concerns are articulated by the spokespersons to attract wider support, internal as well as external support like NGOs, donor agencies, etc. So far, the experience is that environmental groups are often at logger heads with the state whose actions in a democratic set up are supposed to reflect people's demands and aspirations. Unless the thrust for environmental movements comes from the people concerned, it is unlikely that these movements would address the broader ecological dimensions of development which remained peripheral to these movements. This aspect, however, is given due importance in the case of a few micro-level movements where sustainable development is the main objective. And the results or achievements of these movements are exemplary. It is likely that the type of environmental issues addressed by contemporary movements would be different, if the initiative comes entirely from the people concerned. Besides, the sustenance of the movements depends on people's support although their popularity may come from leadership and external support.

With a view to understanding the nature and direction of modern environmental movements in India, an attempt is made in this paper to reflect on the experience of some of the important and popular movements. The discussion is carried out separately for popular movements and micro level movements. It may be noted that popular movements are not necessarily synonymous with macro or country-wide movements. These movements can be termed as macro only in terms of their popularity rather than their support base (or affected regions). While the main objective of the macro movements is to influence the policy, the micro level movements aim at result-oriented sustainable development practices. Our main focus here is on the reasons for their success or popularity rather than on their achievements. This paper is divided into five sections. The following section deals with the characteristics and concerns of some important popular movements

while section three examines why some movements are popular. Section four presents the approach and concerns of micro level movements and the last section reflects on experience of these movements in addressing the basic social objectives *vis-a-vis* environmental concerns.

## II. THE POPULAR MOVEMENTS

The origin of modern environmentalism and environmental movements in India can be ascribed to the *Chipko* movement in the central Himalayan region in the early 1970s. *Chipko* movement, launched to protect the Himalayan forests from destruction, has its roots in the pre-Independence days. Many struggles were organised to protest against the colonial forest policy during the early decades of the twentieth century. The main demand of the people in these protests was that the benefits of the forest, especially the right to fodder, should go to local people [Bahuguna, 1990]. These struggles have continued in the post-Independence era as the forest policies of independent India are no different from those of the colonial days. However, the origin of *Chipko* (*chipak jana* - to hug) dates back to the year 1973. In early 1973, the forest department refused to allot ash trees to the Dashauli Gram Swarajya Sangha (DGSS), a local cooperative organisation based in Chamoli district, for making agricultural implements. On the other hand, the forest department allotted ash trees to a private company, i.e., Symonds Company. This incident provoked the DGSS to fight against this injustice through lying down in front of timber trucks and burning resin and timber depots as was done in the Quit India movement. When these methods were found unsatisfactory, Chandi Prasad Bhat, one of the leaders, suggested embracing the trees to prevent them from being cut. With its success, the movement has spread to other neighboring areas, and then onwards the movement is popularly known internationally as *Chipko* movement. Only during the 1970s this, (now *Chipko*) movement started tending towards concentrating on ecological issues, such as depletion of forest cover and soil erosion.

*Chipko* movement with its wide following and success, though modest in achieving some of its objects, can be termed as a watershed in environmental movements in India. This, in fact, kindled attention to the environmental aspects of development and gave rise to numerous conflicts and protests over natural resources and ecological issues. However, despite numerous forest-based movements during the last two decades in India, none of them had attracted public support or influenced the state policies as much as *Chipko* did. This may be attributed to three important aspects of the *Chipko* movement. First, there is the close link between the livelihoods of the local people and the nature of the movement. The local people consider *Chipko* as a fight for basic subsistence denied to them by the institutions and policies of the state [Guha, 1989]. In addition, the specificity of the region, along with involvement of women in the contribution to household's subsistence and the anti-alcohol campaign, has led to the overwhelming support of women which is unique to the *Chipko* movement. Moreover, as aptly described by Guha [1989, p. 178] the 'private' face of *Chipko* is more a peasant movement, while its public profile is seen as an environmental movement. Further, it has a face of women's movement as well [Omvedt, 1993]. It is interesting to note that in the later stages when *Chipko* ceased to go beyond environmental concerns, i.e., limiting itself to protecting and conservation of trees, the problems started surfacing.

The second aspect is with regard to the nature of agitation. Unlike other environmental movements *Chipko* has strictly adhered to the Gandhian tradition of freedom struggle, i.e., non-violence. To quote Guha, 'there is the veneer of Gandhianism with which *Chipko* is cloaked, a matter of some embarrassment for a state claiming to be the rightful successor of the freedom struggle and upholding Gandhi as the Father of Nation. In this manner *Chipko* has, knowingly or unknowingly, successfully exploited the ambiguities in the dominant ideology of the Indian state' [Guha 1989, p. 177].

Thirdly, the simplicity and sincerity of the leaders like Sunderlal Bahuguna and their access to national leaders like Indira Gandhi and other politicians and officials also helped the success of the movement to a large extent.

Despite its popularity and success, *Chipko* movement is still considered to be incomplete and modest as, in the later stages, it limited itself to ecological aspects of protecting trees with the neglect of local people's requirements. In fact, to start with, *Chipko* movement has had six demands - only one of which is complete stoppage of commercial cutting of trees. The other demands include the following: (i) on the basis of minimum needs of the people, a reorganisation of traditional rights should take place; (ii) arid forest should be made green with people's participation and increased tree cultivation; (iii) village committees should be formed to manage forests; (iv) forest-related home-based industries should be developed and the raw materials, money and technique for them should be made available; and (v) based on local conditions and requirements, local varieties should be given priority in afforestation [Mukul, 1993]. The recent evidence shows that due to the neglect of eco-development linkages (markets, techniques, forest based industries), the objective of ameliorating the conditions of local people in these regions has remained a distant dream. If the situation continues, viz., increasing threat to the livelihood of local people, it may jeopardise the achievements of the *Chipko* movement which may lose the people's support. In fact, the closing down of local industries has resulted in most entrepreneurs, who are attached to the movement, feeling alienated from it [Mukul, 1993, p. 621].

The other popular movements of importance in India, which have environmental protection as one of their objectives, relate to major dams. Notable among them are Tehri Dam, Silent Valley Project and Narmada Valley Project. The longest struggle among the anti-big dam protest struggles was the opposition to Tehri dam, being constructed on the river Bhageerathi in the Garhwal region. The Tehri Baandh Virodhi Sangharsha Samithi (Committee for the Struggle against the

Tehri Dam), founded by veteran freedom fighter Veerendra Datta Saklani, has been opposing the construction for more than a decade. The major objections include, seismic sensitivity of the region, submergence of forest areas along with Tehri town, etc; [for details, see D'Monte, as quoted in Gadgil and Guha, 1994, p. 111]. Despite the support from other prominent leaders like Sunderlal Bahuguna, the movement has failed to gather enough popular support at national as well as international levels and the government is determined to complete the project. For, according to the latest reports (various daily news papers during May-June 1995), the construction of the dam is being carried out with police protection as Sunderlal Bahuguna is sitting on fast unto death. After the Prime Minister's assurance to review the project, Bahuguna ended his fast but construction goes on, though at a slower pace.

One of the early and complete successes of environmental movements was the abandonment of the Silent Valley hydro-electric project in Kerala.<sup>1</sup> The movement in relation to the Silent Valley project was organised by the Kerala Shastra Sahitya Parishad (KSSP) in collaboration with wild life conservationists. In this project, however, there was no local people's involvement as there was no displacement of people. The movement was fought primarily on environmental grounds and mostly at the intellectual level. The major concerns of this movement were the adverse environmental impact on the Silent Valley, one of the last surviving natural tropical forests in India and protecting a rare breed of monkey, lion-tailed *macaque*. With the active support from the international organisations like World Wildlife Fund and the International Union for the Conservation of Nature and Natural Resources the movement assumed international importance [Sethi, 1993]. Though it gained popularity and coverage, the ultimate success of the movement was attributed to the then Prime Minister Indira Gandhi's desire to enhance her image among the international conservation community [D'Monte as quoted in Gadgil and Guha, 1994, p. 112].

The most popular movement in the environmental history of India is the movement against the Narmada River Valley Project. Though the movement started as early as the late 1970s, along with the clearance of the project, it received momentum only during the late 1980s. To start with, this movement was centred around the issue of human rights. In fact, some of the main leaders of the movement at present like Medha Patkar were working towards proper rehabilitation programmes for the dam displaced. Due to improper implementation of the rehabilitation programmes by the state, the human rights activists have become the articulators of anti-dam protests. Their demands included complete stopping of the dam, resettlement and rehabilitation benefits to the oustees [Wood, 1993]. These demands were aptly supported by environmentalists who oppose construction of large dams for ecological reasons. The movement, however, gained wider public attention with mobilisation and organisation of oustees (mostly tribals) and the joining of the eminent social workers like Baba Amte, Sunderlal Bahuguna and Medha Patkar. Though its wider public attention is due to its coverage (impact) in three states, the most notable feature of this movement is the international support it has received. In fact, the main reason behind the World Bank's withdrawal of funding to the project was due to international pressures. To list a few instances: Japanese environmentalists persuaded their government in blocking the money advance for the project. Similarly, the US environmental groups have worked hard to stop World Bank funding [Gadgil and Guha, 1994, p. 173]. With this international support, the leaders of the movement received a sympathetic hearing from a US Congressional Sub-Committee. In the wake of the World Bank's independent review committee report, the European Parliament urged its member countries to instruct their World Bank directors to suspend all further aid to Sardar Sarovar and, in the final voting, all the donor countries voted against funding while poor recipient countries voted for continuation [Wood, 1993]. This kind of international support is something unprecedented in Indian environmental history. The completion of Narmada Valley Project is not directly linked with the

World Bank funding. Hence the success or failure of the movement is not linked with it. The Government is going ahead with the project irrespective of the World Bank funding. The ultimate success or failure of the movement will be reflected in the non-completion or completion (even with the suggested modifications) of the project. It is also unlikely that the project would remain half finished forever. On the other hand, without international pressures it would have been very difficult for the leaders of *Narmada Bachao Andolan* (Save Narmada Agitation) to stop the World Bank funding on their own. Even this may be termed as only a partial success of the movement as the ultimate success lies in convincing or pressurising the government to stop the project with people's support, which is most unlikely in the present socio-economic conditions in India.

It is rather intriguing why 'Narmada' Valley Project became such a popular movement and received such a support from international environmental organisations, whereas environmental disasters like Union Carbide Gas tragedy at Bhopal<sup>2</sup> (which is also located in one of the Narmada states, i.e., Madhya Pradesh), where about 2,500 people have lost their lives while thousands become permanently disabled, failed to receive due attention, despite its potential for a mass movement. Though the case is being dragged on for years in Indian courts at the cost of victims' suffering, the incident somehow failed to capture the fancy of environmental groups. No political pressures whatsoever were brought on the US Government or for that matter on the Indian Government to make the Union Carbide pay the full compensation. In fact, the US and Indian Governments were trying to push the case into the other country's courts. While the US lobbied for the case to be settled in Indian courts as it amounts to lower compensation and less damage to Union Carbide, the Indian Government was doing the reverse, in order to get the maximum compensation. For, in the context of the case being settled in the US, Union Carbide's entire assets will be valued for compensation because the multinational corporation's headquarters are located there and hence the entire Union Carbide

Corporation will be held responsible. Whereas, in the case of Indian courts only Union Carbide of India will be held responsible rather than the Corporation in its entirety. Finally, in the absence of enough external pressures from environmental groups coupled with the Indian Government's weak bargaining power, the case was pushed to the Indian courts.

### III. WHY SOME MOVEMENTS ARE POPULAR?

At this juncture it is important to understand the characteristics and qualities of the movements that make them so popular as against others which are not. According to the standard definition of a social movement, it is a deliberate collective endeavour to bring change in any direction and by any means; it should have some degree of organisation and normative commitment and active participation on the part of its members [Shah, 1990, Pp. 16-17]. Movements with multi-stranded objectives and fast-changing priorities can sustain for longer periods. The cohesiveness of the movement in integrating multiple objectives without losing track of the ground level (initial) protests is vital for its success. Let us now analyse the movements discussed above in the light of these aspects. These movements have three distinct bases - *Chipko* with forest base; Silent Valley, Tehri and Narmada are big dam controversies, and Bhopal tragedy is urban-based. Here, we focus our discussion on the reasons for popularity of some of these movements.

The success or popularity of the *Chipko* movement can be attributed to its long history, multiple objectives which have changed over time, and committed leaders and their stature at local and national level. As the struggle against forest policy of the state had started during the pre-Independence time, it has accumulated over the period a wider local support base and provided a strong ground for the *Chipko* movement. *Chipko's* strength lies in its multiple objectives with a wide range, such as protecting the livelihoods of peasants, anti-liquor campaign, greening the hills in a sustainable fashion, etc. Over the time, the articulation of the problems has also changed. Due to this reason, *Chipko* is often titled

(confusedly) as peasant/ women's/ environmental movement. However, of late, the *Chipko* movement has tended to concentrate on ecological issues alone and, hence, started losing its popular base. Some of its early success can be attributed to the commitment of the leaders and their influence on common people as well as political leaders. But the same leadership (Sunderlal Bahuguna) could not have similar success in mobilising the people or convincing the state in the case of Tehri dam.

The absence of popular support in the case Tehri dam may be attributed to its more or less single objective which is rather ecological (seismic impact and submergence of forest lands). The people involved (people from Tehri town) are a non-homogeneous community with modern influences and life styles, unlike the tribals in the case of Narmada and, hence, difficult to mobilise. Similarly, in the case of Tehri, the approach of following different strategies for drawing the support of various national and international forums is missing. Besides, Tehri dam does not depend so much on external funding as is the case with Narmada.

While the success of the movement against Silent Valley project, without any grassroots support, is mainly of the intellectual nature, the popularity of Narmada has many dimensions. Narmada movement, like *Chipko*, has started with addressing the problems of livelihood of local people (tribals), traversed into human rights issues and focused on environmental concerns while suggesting alternative development paradigm. Interestingly, the strategy of the leadership has been to address all these dimensions simultaneously in an effective manner. To start with, its mass base is the dam-affected tribal communities which are homogeneous and removed from modern influence and hence easier to organise [Patkar, 1992]. Narmada agitation, apart from addressing different objectives, has been following different strategies to influence national and international forums, i.e., explaining things from one point of view to the human rights activists, and from another to the environmental groups, without losing touch with the local tribals

[Patkar, 1992]. Moreover, the activists are very much involved in the socio-economic development of the tribal communities, i.e., building schools, dispensaries, etc. The main reason for its international recognition is the time point at which the movement has started. *Narmada Andolan* had taken-off during the late 1980s when the North-South conflict regarding environmental issues had sharpened. Protecting the environment in the South has become one of the main agenda of the international policy of the North. This has led to the recognition and active support to Narmada agitation from governmental and non-governmental organisations abroad. This support in turn is instrumental in bringing pressure on the World Bank to stop the funding of the project, as it is anti-environment.

On the other hand, the Bhopal tragedy does not seem to have these qualities of a mass movement. It was a sudden tragedy engulfing a heterogeneous urban community. Moreover, the Bhopal Act by the Government of India was passed in March 1985 consolidating all claims arising out of Bhopal disaster and making the Government the only competent authority to represent the victims. This has left no space to mobilise people around the issue of livelihood. In the absence of any direct link between livelihood and environment, the latter was neither given due importance nor articulated. While the compensation issue (livelihood) was submerged due to the influence of the Government, the movement failed to become mass oriented due to the general attitude of the people that 'Government takes care of everything'. To put it differently, Government is viewed as a supporter of the cause. The issue has always been the compensation for the victims but never with regard to future policy on environmentally hazardous industries. For, at that particular point of time, any issue other than compensation would have drawn a blank in terms of local support. Therefore, environmental issues *per se* may not have the potential to draw mass response.

Similarly, examples abound where important environmental problems are neither articulated nor brought to fore by environmentalists in India, in order to bring any policy changes. No movements are organised with regard to urban or industrial pollution, despite the fact that quite a few lives are lost on a regular basis every year. In this regard, the recent trend of increased number of public litigation cases in the courts, pertaining to environmental problems, is a welcome sign. There were no attempts to popularise some of the important region-specific environmental problems, such as desertification, water logging or salinisation in various regions, which are equally harmful as submergence of forest areas under the Narmada reservoir. Surprisingly, the day to day state policies regarding environmental protection are hardly contested by the environmental groups in the country. For instance, in order to encourage small scale industry, it was recently exempted from pollution control law. The decision of the Environmental Ministry to close down thirteen sugar factories which are not adhering to the environmental regulations, despite several warnings, was ultimately waived by the Cabinet Committee which was headed by the Prime Minister himself. Ironically, no environmental group has protested against these policy decisions, nor did they receive any coverage in the press, except for stating the facts.

Despite recommendations from various committees, the state has failed to address the most pressing demand of the Indian agricultural sector, i.e., proper irrigation management. The subsidised and mismanaged irrigation distribution systems are resulting in numerous environmental problems. The environmental groups neither try to influence the policy nor mobilise and convince the farmers which is vital in this particular issue. For, this may result in antagonising the farm lobby as a whole. There may not be any popular (grassroots level) support for such a movement. For, these problems are of long run nature and do not affect the immediate survival of the local people. Moreover, the impact is realised gradually over a period and, hence, may not have mass appeal. Therefore, the present trend indicates that

environmental movements are linked to immediate livelihood and human rights issues which can arouse popular support rather than environmental concerns as such. This, in turn, may help in winning the confidence of the people and gradually make them aware of long term linkages between environmental protection and development.

Perhaps this may be the reason why environmental concerns receive least priority even at the policy level. For instance, in the case of Narmada while the activist groups try to influence the policy in the name of human rights (including livelihood) and environmental problems of the dam, the state tries to counter this with the argument of ameliorating poverty in the downstream areas (beneficiaries of irrigation). In this context, what is missing in the approach is sorting out of the problems at the pre-execution level which is the responsibility of the state as well as the activist groups. This would help in avoiding wastage of public money. At present, there are two major projects, Narmada and Tehri which are stalled half-way due to protests from the environmental groups, without serving any purpose. The main lacuna on the part of the state is that no proper Environmental Impact Assessment (EIA) was carried out at the initial stage for many of the projects. Even when it is carried out it is never put before the public for discussion which is a prerequisite for any EIA study. On the other hand, the evidence shows that environmental concerns/issues gain prominence only at a later stage of the contemporary social movements in India. This may be to attract wider popularity and support. For, in the absence of environmental awareness at the grassroots level, these issues draw little support from the local people and, hence, the issues have to be articulated in a fashion that attracts spontaneous response from the people. Once people's support is assured, broader issues such as environment can be incorporated into the movement.

Thus, hitherto, environmental movements in India which could exploit the linkage between environmental degradation and immediate livelihoods and human rights issues have become



popular. But, the popularity received by *Narmada Bachao Andolan* can mainly be attributed to the strategies followed to gain external influence, including foreign NGOs and governments. Though *Narmada Andolan* is considered as a partial success this does not reflect a healthy trend as far as Indian environmental movements are concerned, at least on two accounts. First, the interference of outside agencies appears to be more political than ecological as their influence was conspicuously absent in the case of other strident environmental problems like the Bhopal tragedy. Second, unless the pressure for protecting the environment comes from the local people themselves, it is unlikely that they would succeed. For, state's actions are often determined by the demands of the majority rather than their requirements. In the absence of awareness among the people, the state always serves (certain) class interests. Though the major environmental movements in India succeeded in articulating the linkages between environment and livelihood they failed to provide any solutions towards ameliorating the problems either through policy changes or through suggesting feasible alternatives. For, despite their popularity, none of the movements could bring in change in the attitudes of the policy makers towards incorporating environmental issues into development projects. Large projects continue to dominate the public investment scenario in agriculture. The alternative development paradigms (to large projects) suggested by environmental groups are not appealing in terms of meeting the large scale requirements such as water, power, etc. However, some of the organisations or individuals at the micro level are demonstrating these linkages and showing exemplary results. What follows is the discussion on two such case studies.

#### IV. THE MICRO LEVEL MOVEMENTS

Here we discuss two of the most successful movements at the micro level which integrated the environmental as well as development aspects. These are: (i) Ralegan Siddhi experiment (named after the village); and (ii) *Pani-Panchayat* (water council), which are located in Maharashtra State and not far from each other. The success of these case studies are very well documented [see

for details, Pagare and Pagare, 1994; Deshpande and Reddy, 1990]. Therefore, instead of going into details of their achievements (ecological and economic), we would try to focus on how these movements are organised and disseminated. For, these two cases portray different approaches for achieving the same goal of sustainable development. Moreover, generating awareness among the villagers is central in both the cases.

In the case of Ralegan Siddhi, Anna Hazare (the man behind the success) followed a philosophical path shown by Gandhi and Vivekananda, where he used religion and cultural factors to bring the desired change in a degenerated society. Through various religious and cultural activities he brought the faction-ridden village together, which is essential for the success of any programme. After winning the confidence of the people, he put forward four principles without which sustainable development and removal of poverty would not have been possible in the village. These include four activities, namely: sterilization, prohibition, ban on grazing and ban on tree-felling. As a result, liquor was totally banned from the village, large scale afforestation programme was started by planting trees in the catchment areas of various watersheds, grasslands were conserved through social fencing thus preventing cattle, goats and sheep from entering certain portions of grazing lands. As the availability of grass has increased, farmers were encouraged to stall-feed their cattle, thus increasing the milk yield. This was followed by watershed development programmes which have enhanced agricultural yields in a more sustainable fashion [Pagare and Pagare, 1994]. This whole process of transformation of village from poverty ridden to self sufficient status was not a smooth sail. There was lot of opposition in the initial stages, but people were persuaded and encouraged to adhere to the four principles. The sustenance of these principles for the past eight years is due to people's increased awareness and realisation. This is striking, especially in the case of total prohibition in the village which is a rare phenomenon in a divergent society.

The approach of *Pani-Panchayat* (Water Council) is somewhat different from that of Ralegan Siddhi. Vilasrao Salunke (the force behind *Pani-Panchayat*) tried to convince the villagers by explaining to them the importance of soil conservation and water harvesting mechanisms in a drought prone region. As he failed to convince the poverty stricken villagers (who used to migrate in search of work), he himself took the responsibility of demonstrating the impact of watershed development programme, which is critical for sustainable development in the drought prone regions. He leased in some 40 acres of land and started cultivating through watershed management approach. It took three years for the villagers to realise the benefits of the environment friendly cultivation practices. Then onwards the demonstration effect on demand for water has taken over and, within another three years, there was a metamorphosis of the village. Out-migration was stopped completely and yield rates and income levels improved substantially due to the increased water tables and *in situ* moisture levels which made lift irrigation possible in this drought prone region. In about ten years the number of lift irrigation schemes has gone up to more than 100 and most of them are functioning in a sustainable fashion. The reason behind the success of these schemes and their sustainability is the unity among the villagers and strict adherence to the rules and regulations laid down by the *Pani-Panchayat* which is an unanimously elected body among the villagers [for details see Deshpande and Reddy, 1990]. Some of the important rules include: (i) water rights being attached to households or individuals rather than to land; (ii) restricting cropping pattern to low water-intensive crops; (iii) equal distribution of water on the basis of household size and distribution of water to landless labour who can sell water or sharecrop; and (iv) contribution by the households for the schemes in the initial stage, i.e., 25 per cent and the rest is taken on loan which is also paid off by the farmers in instalments.

The above two cases are among the most successful in the context of environment and sustainable development which is made possible through bringing awareness among the people.

The interesting part is that two different paths are followed in these cases. While socio-cultural aspects were found useful in Ralegan, demonstration of economic gains proved successful in the case of *Pani-Panchayat*. This is not to say that these factors were best suited to the socio-economic conditions in these villages. It may be due to the approaches followed by the individual leaders who have their own perspectives. Nevertheless, the end result is the same in both the cases, though the spread of *Pani-Panchayat* is much faster than that of Ralegan.

However, the success of these two cases is also attributed to other factors like socio-economic homogeneity of the villages, especially the economic. Almost all the villagers were struggling for their survival before the schemes and they knew very well that the benefits could be sustained only if they work united. But, as the *Pani-Panchayat* schemes spread it is becoming increasingly difficult to control the individual farmers to restrict to the suggested cropping pattern as they prefer to grow high value water-intensive crops like sugar cane [Reddy, 1995]. This, in turn, is affecting the sustainability of the schemes both in terms of availability and distribution of water. Moreover, the success of these cases are highly dependent on the committed leadership which is hard to find in the present context of socio-political development in the country. Unity and participation of rural people is crucial for the success of sustainable development. However, to the contrary, in most of the villages community management of natural systems like common grazing lands and other natural resources is disappearing fast because decentralised democratic system and the resulting party politics have made serious dents in the village unity [for a detailed discussion on the decline of traditional water systems, see Reddy, et al., 1997]. The end result is institutional failure as well as policy failure. This is proving detrimental to the spreading and replication of schemes like Ralegan and *Pani-Panchayat* where village unity is crucial. But, these two cases give a clear message that bringing awareness among the people concerned is vital for protecting the

environment. Moreover, environmental protection should lead to economic gains and their proper distribution should be ensured. These aspects need to be addressed effectively at the macro level for bringing in the desired policy changes which should be the prime motive of the environmental movements in India. The maturity of environmental movements is determined by the issues they address through awareness building rather than their popularity with media and international agencies. Awareness building is crucial in countries like India where more than half of the population does not receive basic literacy, let alone environmental education. However, our intention is not to belittle the importance of popular movements. In fact, these movements have helped in bringing awareness, whatever little, regarding the irreversible environmental damages (such as loss of forest cover, culture, etc.), that could be bequeathed to the society due to the present development process.

#### V. SOME REFLECTIONS

Awareness and concern for environment have remained, more or less, restricted to a few individuals in most of the developing countries like India. As a result, despite the rise in the number of conflicts and movements over environmental issues, concern for the environment has remained peripheral for most of the contemporary movements. Though it is obvious that environmental issues get snowed under developmental issues at the grassroots and policy levels, the contemporary movements also seem to fail in addressing ecological aspects.

This paper on the backdrop of contemporary popular movements in India, argues that the present trend is not healthy as the movements fail to integrate environment and development. In other words, they are basically ecocentric rather than pragmatic. Even the *Chipko* movement, hitherto the most popular movement in terms of local people's (including women) involvement, has failed to carry forward its objective of developing the region and ameliorating the conditions of the local people in the later years. The recent movements, such as Narmada, are more effective in bringing the conflicts between

development and environment to the fore rather than working towards sustainable development (ecological as well as economic). The ecocentric approach (borrowed from Western movements) may not suit developing countries as the main concern here continues to be the basic needs. And, hence, the approach of these movements in India ought to be different from that in the developed countries. Moreover, the environmental groups and the state need not always work at cross purposes, they can also work in tandem in addressing some of the pressing problems.

In the absence of basic literacy, let alone environmental education, to more than 50 per cent of the population, the grassroots level awareness and concern for environment are rather low on the priority list. As a consequence, environmental concerns, in the absence of any direct linkage with livelihood, are not germane to the local needs. In fact, they are imposed from above. Often the struggles of local people over the control of resources are labelled as ecological conflicts by the environmentalists and the issues of environment become central to the movement at a later stage with the involvement of sympathetic outside forces. The articulation of environmental issues, however, helps in getting external support rather than local support. Perhaps, due to this reason environmental issues are conspicuous in the contemporary social movements in India. This in turn has led to their wider popularity and success in some cases, though to a limited extent. On the other hand, the link between immediate livelihood and environmental degradation seems to be most effective in getting local people's as well as external support. Getting people's support on pure ecological grounds is rather difficult at the present level of socio-economic development in India. For, the ecological impact of dam on downstream areas (beneficiaries) is equally important, but the anti-dam movements (on environmental grounds) never try to get the support of the beneficiary population by explaining the long run linkages of environment and development. In the down stream areas the livelihood is not adversely affected in the short run. On the contrary, economic conditions are expected to improve, in which case it amounts to

antagonising the local people in these areas. Therefore, the focus on environmental concerns is limited to specific issues rather than taking a holistic view. It is also ironical that only specific issues attract international attention to the neglect of more strident environmental problems. At the moment, it is rather intriguing whether the environmental issues are really at the heart of contemporary movements in India, though most of them are labelled as environmental movements. In this context, it may be interesting to look into the political economy of environmental protection at the international level and its influence on the local environmental movements.

On the other hand, while the popular environmental movements at the macro level appear to be lacking in direction, the achievements of micro level movements in addressing the issues of sustainable development seem to be more tangible. The major difference between these two is that while the former focus on influencing the policy, the latter influence the concerned people through building up awareness and result (development) oriented efforts. In the absence of environmental awareness among people, influencing the policy may prove difficult as the policy making is often influenced by the majority's demands or class interests. Clearly, environment is not on the priority list of the majority populace and certainly not as far as class interests are concerned. Therefore, the efforts of the environmental groups at the policy level may be directed towards bringing in awareness and changing attitudes of the people towards environment which need some hard policy decisions. This, in turn, would help in building environmental movements in a holistic and sustainable fashion.

## NOTES

1. Another success was with regard to Bedthi project in the Uttar Kannada district of Karnataka State. This project was abandoned due to the opposition from prosperous and influential spice garden farmers whose lands were to be submerged. These farmers used their influence and resorted to hectic lobbying tactics with political leaders forcing the government to abort the project [Gadgil and Guha, 1994]. However, this instance is not widely known.

2. The Bhopal gas tragedy took place at night on December

2-3, 1984. About 30-40 tonnes of methyl isocyanate leaked from the storage tank of Union Carbide factory, a multinational company manufacturing pesticides, located at Bhopal, the industrial capital of Madhya Pradesh - a central Indian State. This gas is described as creeping, deadly, yellow, choking vapour which was intensely irritating to the eyes and lungs. It has claimed 2,500 lives within three days of the incident [Das, 1995].

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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. Extract from the *Report on the Territories Conquered from the Paishwa*, submitted to the Supreme Government of British India by the Hon'ble Mountstuart Elphinstone, Commissioner, 1872.
2. *Report of the Study group to Frame Guidenines for Follow-up of Bank Credit, 1975*, (Chairman: Prakash Tandon), Reserve Bank of India, Bombay, Chapters 3, 4, 6 and 9.

**REPORT ON THE TERRITORIES CONQUERED FROM THE PAISHWA  
SUBMITTED TO THE SUPREME GOVERNMENT OF BRITISH INDIA  
BY THE HON'BLE MOUNTSTUART ELPHINSTONE, COMMISSIONER**

**REVENUE**

The principle, I adopted for the civil administration, being to preserve unimpaired the practice which I found established, this part of my report ought to consist entirely of an account of the Marratta system; and although more changes have been introduced than were intended, that will in fact occupy a very considerable portion of the statement which is to follow.

My information is derived, in a great measure, from the Jumabundy reports of the local officers, on revenue subjects; and on judicial ones, from the answers of the same gentlemen to a series of queries, which I circulated about the end of last year. These answers are forwarded, and I beg to recommend them to attention. That of Mr. Chaplin is of particular value. Captain Grant's contains much information, both on the points immediately in question, and on the general character of the people; and those of Mr. Thackeray, Sub-Collector of Ranee Bednore, have likewise considerable merit. Besides this view of the former practice, I shall point out the changes that have occurred; and as local opinions are always of use, I shall add such suggestions as occur to me on the course to be pursued hereafter, though the want of general knowledge, as well as of experience in the departments to which they refer, may often make them crude or erroneous.

*Village Government*

In whatever point of view we examine the Native government in the Deccan, the first and most important feature is, the division into villages or townships. These communities contain in miniature, all the materials of a state within themselves, and are almost sufficient to protect their members, if all other governments were withdrawn. Though probably not compatible with a very good form of government, they are an excellent remedy for the imperfections of a bad one; they prevent the bad effects of its negligence and weakness; and even present some barrier against its tyranny and rapacity.

*For a full account of the constitution of a village, see Captain Robertson's letter of March 9th, 1819.*

Each village has a portion of ground attached to it, which is committed to the management of the inhabitants. The boundaries are carefully marked, and jealously guarded. They are divided into fields, the limits of which are exactly known; each field has a name, and is kept distinct, even when the cultivation of it has long been abandoned. The villagers are almost entirely cultivators of the ground, with the addition of the few traders and artisans that are required to supply their wants. The head of each village is the Patail, who has under him an assistant, called a Chaugulla, and a clerk called a Coolkurnee. There are besides, 12 village officers, well known by the name of the Barra Bullootee. These are the astrologer, the priest, the carpenter, barber, &c (etc.), but the only ones who are concerned in the administration of the government, are the Sonar, or Potedar, who is silver-smith and assayer of money, and the Mhar, who in addition to various other important duties, acts as watchman to the village. Each of these classes consists of one or more individuals, according as their original families have branched out. The Mhars are seldom fewer than four or five, and there are besides, where those tribes are numerous, very frequently several Beels or Ramoosees, employed also as watchmen, but performing none of the other duties of the Mhar.

*Patail*

*The functions and privileges of a Patail are well shown in the enclosed translation of a deed of sale, transferring a share of the office, which was forwarded by Captain Robertson, in his letter of March 9th, 1818, No. 6.*

The Patails are the most important functionaries in the villages, and perhaps the most important class in the country. They hold their office by a grant from the government (generally from that of the Moguls), are entitled in virtue of it to lands and fees, and have various little privileges and distinctions, of which they are as tenacious as of their land. Their office and emoluments are hereditary, and saleable with the consent of the

Government, but are seldom sold, except in cases of extreme necessity, though a partner is sometimes admitted with a careful reservation of the superiority of the old possessor. The Patail is head of the Police, and of the administration of justice in his village; but he need only be mentioned here as an officer of revenue. In that capacity he performs on a small scale what a Mamlutdar or a collector does on a large; he allots the lands to such cultivators as have no landed property of their own, and fixes the rent which each has to pay; he collects the revenue for Government from all the ryots; conducts all its arrangements with them, and exerts himself to promote the cultivation and the prosperity of the village. Though originally the agent of the Government, he is now regarded as equally the representative of the ryots, and is not less useful in executing the orders of the Government than in asserting the rights, or at least in making known the wrongs, of the people.

*Coolcurnee. Vide Captain Grant's Report, August 17th.*

The Coolcurnee keeps the numerous records and accounts of the village. The most important are, 1st, the general measurement and description of all the village lands; 2nd, the list of fields, with the name of the tenant, the rent for which he has agreed, and the highest rent ever produced by the field; 3rd, the list of all the inhabitants, whether cultivators or otherwise, with a statement of the dues from each, to Government; and the receipt and balance in the account of each; 4th, the general statement of the instalments of revenue which have been realised; and 5th, the detailed account where each branch of revenue is shown under a separate head, with the receipts and balance on each. Besides the public records, he generally keeps the accounts of all the cultivators with each other, and with their creditors - acts as a notary public, in drawing up all their agreements, and even conducts any private correspondence they may have to carry on. He has lands; but oftener fees (are) allotted to him by Government, from which he holds his appointment.

#### *Chaugulla*

The Chaugulla acts under the orders of the Patail, and assists him in his duties; he also has the care of the Coolcurnee's records.

#### *Watchman*

The most important revenue duty of the Mhar is to watch over the boundaries, both of the village lands and of each individual's field; to see that they are not encroached on; to give evidence in cases where they are disputed; he watches over crops, whether cut or growing, as long as they are in the fields. He is also the public messenger, and guide; and will be mentioned again as a (the) most important actor in the Police.

#### *Potedar*

The Potedar, besides being the village silversmith, assays all money paid, either to Government or to individuals.

With the few exceptions already mentioned, all the villagers are cultivators; and these, as there are few labourers, are distinguished by their tenures into two classes, that of Meerassees or landed proprietors, and that of Ooprees, or farmers.

*Meerassees or landed proprietors, [No. 7, A. Captain Robertson dated March 9, 1818, B. Captain Briggs, dated December 2nd 1818, C. Captain Pottinger, dated January 15, 1819, D. Captain Briggs, dated June 22, 1819 and E. Captain Grant, dated August 17, 1819]. I also enclose report on the same subject drawn up by Captain Macleod, from the most intelligent informants he could procure in the Dufurs, or in Poona, No. 9.*

As I was particularly directed to attend to the tenures of land, I have called on the Collectors to furnish the requisite information; only two answers have been received, but the enclosed Extracts, No. 7, from letters written on other subjects, sufficiently elucidate this question. They are perhaps the more to be depended on,

because all of them, except Captain Grant's and Captain Brigg's 2nd letter, were written before any question had been put, that could influence the writers; and that they are not produced by any speculations, but forced on the Collectors, by the course of their ordinary business. The deeds of sale enclosed in Captain Robertson's letter of March 9th, throw a clear light on the manner in which the Meerassee tenure was regarded by the people and by the Government. The result of those reports, and of my own enquiries is, that a large portion of the ryots are the proprietors of their estates, subject to the payment of a fixed land-tax to Government; that their property is hereditary and saleable, and they are never dispossessed, while they pay their tax, and even then, they have for a long period (at least 30 years) the right of reclaiming their estate, on paying the dues of Government. Their land tax is fixed; but the late Marratta Government loaded it with other impositions, which reduced that advantage to a mere name; so far however was this from destroying the value of their estates, that, although the Government took advantage of their attachment to make them pay considerably more than an Oopree; and though all the Meerassdars were, in ordinary cases, obliged to make up for failures, in the payment of each of their body, yet their lands were saleable, and generally at 10 years' purchase. This fact might lead us to suppose, that even with all the exactions of the late Marratta Government, the share of the ryot must have amounted to more than half the produce of the land; but experience shews that men will keep their estates, even after becoming a losing concern, until they are obliged to part with them from absolute want, or until oppression has lasted so long, that the advantages of proprietorship, in better times, have been forgotten. The Meerassdars are perhaps more numerous than the Ooprees all over the Marratta country. In the Carnatic, I am informed by Mr. Chaplin, that they do not exist at all. Besides Meerassdar, they are called Thulkuree about Poona.

An opinion prevails throughout the Marratta country, that under the old Hindoo government, all the land was held by Meerassees; and that the Ooprees were introduced, as the old proprietors

sunk under the tyranny of the Mahomedans. This opinion is supported by the fact, that the greater part of the fields, now cultivated by Ooprees, are recorded in the village books, as belonging to absent proprietors; and affords, when combined with circumstances observed in other parts of the Peninsula, and with the light land-tax authorized by Menu; a strong presumption that the Revenue system under the Hindoos (if they had an uniform system) was founded on private property in the soil.

All the land which does not belong to the Meerassees, belongs to Government, or those to whom Government has assigned it. The property of the Zemindars in the soil has not been introduced, or even heard of, in the Marratta country.

#### *Ooprees or Farmers*

The cultivated land belonging to Government, except some parts which it keeps in its own hands, to be managed by the Mamlutdars, was always let out to Ooprees, who had a lease; with the expiration of which their claim and duties expired.

These are all the tenures on which land was held, as far as regards the property of the soil. The assignments by the Government, of its own revenue, or share of the produce, will be mentioned hereafter. It need only be observed, that in making these grants, it could not transfer the share of a Meerassdar. Even Bajee Row, when he had occasion for Meerassee land, paid the price of it.

#### *Village Expenses*

#### *Village Debts*

#### *Village Grants of Land*

Such are the component parts of a village: its transactions with Government will be explained hereafter; but there are some of its internal affairs still to be mentioned. The maintenance of the Village Temple; its fixed and authorized pensions, and annual charities; its ceremonies and religious festivals; its alms to beggars and entertainments to guests, especially to Bramins and Fakeers; its occasional amusements, tumblers, dancers, &c., its nuzzurs to superiors; its



offerings to the Patail and other village officers on occasions of condolence or congratulation; the expenses of the Patail on the public affairs, and the fees of peons stationed in the village, entail a number of expenses on the community, which, unless allowed for from the Government revenue (which is very rare), are defrayed by a tax on the village. This tax falls on the cultivators, especially on the Meerassdar, and is a great source of profit to the Patail and Coolcurnees. In general these expenses were in the proportion of 1-10th, or from that to 1-5th, to the public revenue. The three first charges were called Solabad, or permanent, and were provided for by permanent assessments; and the rest Saudir Warrid, or contingent, which were paid by extra assessments called Saudir Warrid Puttee; these last were always liable to a scrutiny by the Mamlutdars, who probably perceived that all expensive charges against the ryots would in time fall on the Government. In addition to these, were occasional expenses, such as repairs of the village walls, the necessity of entertaining Sebundies for defence, or of paying an enemy, or an insurgent for forbearance, which it was beyond the means of a village to defray at once. In this case, the village contracted a public debt which was gradually paid by an annual assessment included in the Saudir Warrid Puttee, and some times provided for by mortgages, or grants of land on the part of the villagers. These grants were called Gaum Nishut (Nisbat?) Enaums; if they were so small as to be admitted, or be likely to be admitted by the Government, no rent was charged on them; but if they were too large to be agreed to, or to escape observation, the revenue was paid by all the other ryots, the creditor still enjoying them rent free: small grants were also made for Temples, or to Bramins, which were always acquiesced in by the Government, but the villagers have never pretended to any property in the soil, beyond the estates of the Meerassdars.

*Daishmook Daispandees, and Other Zemindars, or District Officers*

The next division, is a Turruf, composed of an indefinite number of villages, with perhaps an addition of uninhabited mountain and forest land (there being no other land not included in some

village). A Turruf is under no particular officers; several of them make a Purgunna, which is under a Daishmook or Zemindar, who performs the same functions towards the Pergunna as a Patail towards the village. He is assisted by a Daispandee, who answers to the Coolcurnee, and a Daischaugulla. The Daishmook and Daischaugulla, like the Patail and Chaugulla, are Marrattas. The Daispandee and Coolcurnee are Bramins: above these officers there appear to have formerly been Sirdaishmooks and Sirdaispandees; but this order of things is not remembered; though there is still one family of the ancient Sir Daishmooks extant, beside the Raja of Sattara, who extorted the office of Sir Daishmook from the Mogul, as a pretext for some exaction from the country. The only Sir Daispandees I have heard of, are in the Concan. There is also an Officer called Sir Canoongoe in Candeish, whose office probably corresponds with that of Sir Daispandee. There are other Officers still in existence in some places, such as the Sir Patail, the Nargoond, &c., whose present functions are too unimportant to promise any advantage from an investigation of their ancient condition. It is universally believed in the Marhatta Country, that the Daishmooks, Daispandees, &c., were all Officers appointed by some former Government; and it seems probable, that they were the Revenue Officers of the Hindoo Government; that these Officers (Offices), being hereditary, like most others under the Hindoos, they were in possession of too much knowledge and influence to be dispossessed by the Mahomedans; who, though they appointed District Officers, availed themselves of the experience of the Zemindars, and allowed them to settle with the Patail, explaining their proceedings to the more immediate Officer of Government. They even often farmed out the whole Pergunna to the Daishmooks, who by this means acquired so much authority in some parts of the country, as to be able, on the decline of the Mahomedan kingdoms in the Deccan, to maintain themselves, for a time, in independence. The Marhatta, or rather the Bramin Government, was led by this conduct, and by their embezzlements of the Public Revenue, almost to set aside the employment of the Zemindars, transacting all business directly with

the Patails, by means of its own Officers. This change, though probably produced by the policy and avarice of the Bramins, is considered to have been attended with beneficial effects, as delivering the people from the oppressions and exactions of the Zemindars.

Long after the Zemindars ceased to be the principal Agents, they were still made use of as a check on the Mamlutdar; and no accounts were passed, unless corroborated by corresponding accounts from them; but even this practice has been disused since the farming system, except in the distant provinces of Guzerat and the Carnatic.

These Officers still hold the lands and fees that were originally assigned them as wages, and are still considered as servants of the Government; but the only duty they perform is to produce their old Records, when required; to settle disputes about land, by a reference to those Records, and to keep a Register of all new grants and transfers of property, either by the Government, or by individuals. This Register must however be very incomplete, as no man is obliged to record his deed unless he chooses. The Daishmook's profits are very great; generally, I am told, above five per cent, not only on the Revenue, but on the land; five acres in each hundred, for example, will belong to the Daishmook, and a twentieth of the collections besides; he has also various claims in kind, as a pair of shoes every year from each shoe-maker; a portion of ghee from those who make that preparation, &c., &c.

The Daishmook of Futton has even 25 per cent, but having been for centuries Jageerdar of his own Pergunna, he has probably transferred a great deal from the Government account to his own. The allowances of the Daispandee are about half those of the Daishmook. The allowances of the Patail and Coolcurnee are exactly of the same nature, but much smaller. All these fees are levied by the owners, distinct from the Government Revenue. Daishmooks and Daispandees, as well as Patails and Coolcurnees, sell their own land and fees (or Wuttun, as both are called); but neither pretends to any property in the rest of the lands. It seems to be thought, that they cannot even sell their

Offices, (though Patails and Coolcurnees can) and it is even doubtful, if they can sell their fees, though they may pawn them. Their land they can certainly sell.

#### *Marratta System of Revenue*

A number of Pergunnahs formerly composed a Sircar; but this division is now completely disused; and that into Pergunnahs and Turrufs, though still kept up in records, is not always the real Revenue division. To explain this completely, would lead me into the complicated system of the Marrattas, which is the less necessary, as that system is now, as far as possible, laid aside. An idea of the divisions to which it leads, and which vary in different places, may be derived from the following account of one of the simplest cases.

#### *Sir Daishmook*

*Choute*

*Baubtee*

*Sahotra*

*Mookassa*

The first pretension of Sewajee was to levy from the Ryots, as Sir Daishmook, 10 Rupees for every hundred levied by the Government. This was afterwards followed by a demand of a fourth of the Government collections, which at length was yielded by the Moguls. The fourth thus acquired, is called by the Marrattas the Choute; it was immediately divided by the Prince with his Ministers and Sirdars. A fourth of it was at first reserved for the Raja, and collected by the Prittee-Nidhee, the Paishwa, and the Punt-Suchem (Punt-Suchew), under the name of Baubtee. 6 per cent on the whole Choute, before the deduction of the Baubtee, was given under the name of Sahotra to the Punt Suchem. The remainder of the Choute, under the name of Mokassa, was partitioned among the Sirdars, on condition of maintaining troops, of bearing certain expenses, and of paying a certain portion of money to the treasury. The Sir Daishmook shared the same fate, and from these funds some Enams were also granted, and some charities defrayed.

Subsequently to the acquisition of the Choute, the remaining three fourths of the country, (which is called Jageer, in contradistinction to the Choute) fell also into the hands of the Marrattas. The division then stood as follows:

Supposing the Government share	400	
Sir Daishmookee	40	
Government Revenue	400	
Viz. Choute, or fourth	100	
Jageer	300	
Total with Sirdaishmookee	440	
<i>Subdivisions of Choute</i>		
Baubtee	25	
Mokassa	75	
Total Choute	100	
<i>Subdivisions of Mookassa</i>		
Sahotra, 6 per cent on the whole	6	
Choute		
Ein Mokassa	69	
Total Mokassa	75	

This gives but an imperfect idea of the numerous subdivisions which have been made in most parts of the country. Some were assigned to Jageerdars, and their separation from the bulk of the Revenue was thus necessarily perpetuated; but even where they all fell into the hands of the Government, it still kept them up in name, and sometimes even in practice. Thus one man would sometimes collect the Sirdaishmookee; another the Jageer dues; a third the Mokassa; a fourth the Baubtee, and a fifth the Sahotra, on the same village. In this case the holder of the Jageer would settle the sum to be paid by the village; the Mokassadar would send and collect his share from the ryots; but the other claimants would allow the holder of the Jageer to collect the rest, and pay to each his share, the amount of which each would ascertain from the village accounts. But when there was a defalcation, each endeavoured to collect his own, and throw the loss on his neighbour, and a general struggle ensued, in which the ryots were sure to

suffer from the violence of the combatants. In addition to this distribution of the Revenue, various causes broke up the Pergunnas, and made the Marratta Revenue divisions exceedingly scattered and intermixed.

#### *Marratta Officers of Revenue*

Their gradations of authority departed as far from the uniformity of the Mahomedans, as their divisions of the Territory. In general, each Revenue division was under an Officer, who in a large district was called Mamlutdar, and in a small one Camavisdar; under these, Turrufdars or Carkoons who had charge of a considerable number of villages; and under them, Shaikdars who had four or five. The nomination of the Mamlutdars rested with Government; that of the inferior agents with the Mamlutdar. There were however in every division permanent Officers called Durrukdars, appointed by Government, and generally hereditary, whose signature was necessary to all papers; and who were bound to give information of all malpractices of the Mamlutdars. These Officers were the Dewan, who was the deputy to the Mamlutdar, the Furnavees, or keeper of registers, the Potenavees, or cash accountant, &c.

#### *Marratta Manner of Collecting the Revenue*

In some provinces, especially in remote ones, such as Candeish, Guzerat and the Carnatic, there was an Officer between the Mamlutdars and the Government, who was called Sir Soobehdar; his powers and duties varied. In the Carnatic he was answerable for the Revenue, and appointed his own Mamlutdars; but in Candeish he had only a general superintendence, every Mamlutdar giving in his own accounts, and making his payments direct to Government. The allowances of these Officers were not very clearly fixed; before the introduction of the farming system, a considerable (consideration?) Mamlutdar had (was) 5,000 or 6,000 Rupees a year, generally about one per cent, on the Revenue, besides an undefined allowance for his expenses. He also made large unauthorized profits, often with the connivance

of Government. He was reckoned reasonable, if his whole profits did not exceed 5 per cent on the net revenue.

*Note - Captain McLeod's Paper, and in Captain Grant's Letter of August 17th*

Every Mamlutdar, on his appointment, or at the commencement of the year, received from Government an estimate of the revenue of his district; with a list of all the authorized charges, including Sebundeas, pensions, religious expenses, salaries, &c., &c. It was his duty to send in the balance to Government; and a proportion of it, generally half, was paid immediately; the rest was paid by instalments, but always in advance. The Mamlutdar then proceeded to his district, and moved about to superintend his offices, and to redress grievances; he kept a Vakeel at Poona to receive all orders, and answer all complaints. Complaints are said to have been readily heard; but as all was done by the Prince, or his Prime Minister, that must have depended on their leisure and patience. At the end of the year, the Mamlutdar presented his accounts of the collections, confirmed by the accounts signed by the Zemindars, and the receipts and expenditure in his own office, drawn up by the Furnavees, and signed by the other Durruckdars. These were carefully revised; and, as from the mode of payment in advance there was generally a balance in favour of the Mamlutdar; all unauthorized charges were struck out of it; and often reductions were made on account of supposed embezzlements, without much proof or investigation. The admitted balance was carried on in account from year to year; was sometimes compromised by partial payments, by grants of annuities, &c., but was seldom fully paid. On the other hand, all balances due to the Government were exacted; though the Mamlutdar was not bound to pay the sum inserted in his estimate, if the receipts fell short of it. If the defalcation was owing to corruption on his part, he was obliged to refund; and if to his negligence, he was removed from his office. Though, in this adjustment of accounts, all advantages appear to be on the side of the Government, yet the Mamlutdars do not appear to have complained, or to have suffered much in reality. They had probably

many ways of making money, which eluded the utmost researches of the Government, especially as they could generally find means to engage the Zemindars and Durruckdars on their side. The sources of their profit were concealment of receipts (especially fees, fines, and other undefined collections,) false charges for remissions, false musters, non-payment of pensions, and other frauds in expenditure.

The grand source of their profit was an extra assessment above the revenue, which was called Sauder Warrid Puttee. It was levied to pay expenses of the district not provided for by Government, and naturally afforded a great field for speculation; one of the chief of these expenses was called Durbar Khurch, or Untust. This was originally applied secretly to bribe the Ministers and auditors. By degrees, their bribes became established fees, and the account was audited like the rest; but as bribes were still required, another increase of collection took place for this purpose; and as the auditors and accountants did not search minutely into these delicate transactions, the Mamlutdar generally collected much more for himself, than he did for his patrons. It was said, that it was chiefly the Government that suffered by these frauds, and that the imposts did not fall heavy on the Ryots. If this were so, it was probably owing to the interest the Mamlutdars had in the prosperity of their districts, from the long periods for which they were allowed to hold them. Many men held the same district for as long as 50 years.

#### *Land Revenue*

The following was the manner in which the Mamlutdar raised the Revenue from his district. At the beginning of the rains, he sent for the Patail; gave him a general assurance, that he should take no more than was usual; the Patails giving a written engagement, specifying the quantity of cultivated land, the quantity of waste, and that granted at a just rent to new settlers, and promising to realize the Revenue. He then went to his village, encouraged the Ryots to cultivate, procured them loans, or forbearance from former creditors, promised to get them Takavee (or advances from the Mamlutdar), and prevailed on them to

undertake the ploughing of new lands. Takauvee was given by the Mamlutdar, not by the Government; it was payable in 2 or 3 years, with interest, and security was given by the Patail, or several of the Ryots.

About the end of one year, when the principal harvest was nearly ready to be cut, the Mamlutdar moved out into his district and was attended by the Patails of villages, with their Coolcurnees, who laid before him the papers already enumerated. The whole country has been surveyed, and each field classed and assessed according to its circumstances and quality. The Northern districts were surveyed by Mullick Umber, and the Southern by the Adil Shauhee Kings, besides partial and imperfect attempts at surveys by the Marrattas. The assessment fixed by those Monarchs is called the Tankha. The whole amount thus assessed was never actually realised in some villages, while in others a greater revenue may have been collected. This gave rise to another rate, being the highest ever paid, which is called the Kamil or Hemaul, and which is considered more applicable to practical purposes than the Tunkha: that of the last year, or of any recent year, is called the Wusool, or Akar. All these rates are contained in the Coolcurnee's papers, with the other particulars mentioned before, which ought to give a full view of the state of the inhabitants and cultivation. The Mamlutdar was enabled, by the intimate knowledge of the village possessed by his Shaikdars, to judge of the accuracy of these statements, and he proceeded to settle the Revenue of the ensuing season, on a consideration of the amount paid in former years, combined with a regard to the actual state of things. The Patail represented any ground there was for relaxation, in the terms in which he expected the support of the Daishmook and Daispandee; all hereditary officers being considered as connected with the Ryots. The Patail was likewise accompanied by some of the principal Ryots, especially of the Meerassdars, who were witnesses to his proceedings, and who also assisted him with their opinions. These discussions generally ended in a second more particular agreement, on which the Patail interchanged with the Mamlutdar an engagement, fixing the Revenue; that of the

Mamlutdar was called the Jumwabundee Puttee, and that of the Patail, Kabool Keetba. The Patail had generally settled with the Ryots the share which each was to bear, before he came to make the settlements; and if any thing unexpected was proposed, so as to derange the distribution agreed on, he returned to his village, to consult the Ryots anew. When the Patail continued obstinately to reject the terms offered by the Mamlutdar, a special officer was sent to the spot to examine the fields, and if no other means succeeded in affecting an adjustment, the Mamlutdar would offer what seems to have been the original principle in all settlements, namely, for Government to take half, and leave half to the cultivator. This plan was termed Bhuttye. It is generally adopted in the Concan, but seldom resorted to above the Ghauts, until the final settlement was made; the crops in many parts of the country were kept in charge of Havildars on behalf of Government, who allowed them to be carried off as soon as the settlement was completed. In the country immediately round Poona, however, and in that now under Sattara, this custom was not observed.

When the time for paying arrived, a Sebundy was sent by the Shaikdar to assist the Patail. The Mhar summoned the Ryots, who paid their rent to the Patail, in the presence of the Potedar, who assayed and stamped the money; and of the Coolcurnee, who granted a receipt. When all was collected, the Patail sent it by the Mhar, with a letter to the Daishmook, and another to the Kamavisdar, under charge of the Chaugulla, and received a receipt from the Mamlutdar. If a Ryot refused, or was unable to pay his revenue, the Sebundy pressed him for it; confined him in the village Choky; exposed him to the sun; put a heavy stone on his head, and prevented his eating and drinking until he paid. If this did not succeed, he was carried to the Mamlutdar; his cattle were sold, and himself thrown into prison, or into irons. This rigorous treatment was seldom necessary for the regular revenue; it was more employed in exacting extraordinary taxes; and under the farming system, the practice of it was frequent and severe. If a whole village resisted, these severities fell on the Patail; but previous to that extremity, a horseman was billeted on the village,

or a fine levied, to induce it to submit. The payments were by three instalments, corresponding with the seasons of the Rubbee, Toossar and Khureef crops; there was frequently another at the end of the year, to recover all outstanding balances.

### *Extra Revenue*

The above relates to the regular rent or tax on the land; for it may be considered as rent, with regard to the Ooprees; and as a tax, with regard to the Meerassdars; (it is called by the Natives, Ayen Jumma, or proper collections). Another regular source of Revenue levied, partly on the Ryots, and partly on the other inhabitants, is that termed by the Marrattas, Sawae Jumma, (or extra collections); these taxes vary extremely in different districts, and even in different villages. The following list, though not complete, gives an idea of their nature. The first fall chiefly, or entirely on the cultivators: Dukub Puttee, a tax of one year's revenue in ten, on the lands of the Daishmook and Daispandee: Huk Choutaee, a fourth of the fees, levied every year: Mhar Mharkee, a particular tax, on the Enams of the Mhars: Meeras Puttee, an additional tax, once in three years, on Meerassdars: Enam Fijavee, a payment of Enamdars, of a third of the Government share of their lands yearly: Enam Puttee, an occasional tax, imposed in times of exigency on Enamdars: Pandee Gunna, an additional levy, equal to 12 per cent on the Tunkha, once in 12 years: Veer Hoonda, an extra tax on lands watered from wells. Other taxes were on traders alone. These were Mohterfa, a tax on shop keepers, varying with their means; in fact, an income tax: Belootee, a tax on the 12 village servants. These too are sometimes included in the Ayen Jumma; and in some places, the Mohterfa forms a distinct head by itself: Bazar Beituk, a tax on stalls at fairs: Koomar Kan, on the earth dug up by the potters. The following might fall indiscriminately on both classes: Ghur Puttee, or Amber Sarree, a house tax levied from all, but Bramins and Village officers. Butchappanee, a fee on the annual examination of weights and measures: Tug, a similar fee on examining the scales used for bulky articles: Deckka, or the right to beat a drum, on

particular religious and other occasions: Kher-eedy Jins, (or purveyance;) the right to purchase articles at a certain rate; this was generally commuted for a money payment: Luggun Tukka, a tax on marriages: Paut Dajuma, a particular tax on the marriage of widows: Mhys Puttee, a tax on buffaloes: Bukra Puttee, a tax on sheep. There were also occasional contributions in kind, called Fur Furmanesh, such as bullocks' hides, charcoal, hemp, rope, ghee, &c., which were often commuted for fixed money payments; many other sums were paid in commutation for service. All these collections were made by the Patail in small villages, though in towns there was a separate officer to levy those most connected with the land. Government had other sources of revenue included in the Sawae Jumma in each village, besides those enumerated. The principal were as follows: Khamawis, Goonahgarree, or Kund Furshee, as fines and forfeitures, Beitool Maul (E(s)cheats) amount (profit from deposits and temporary sequestrations): Wan-cheravee, paid by cattle grazing on government land: Ghas Kuttanee, or grass cut on government lands: Devustant Dubhee, derived from offerings to idols: Khurbooz-warree, on melon gardens on the beds of rivers: besides all this, and besides the Gaum Khurch, or village expenses, there were taxes to defray the Mehel Saudir Warrid, district expenses not already provided for by Government, in which were included many personal expenses of the Mamlutdars, and a large fund for embezzlement and corruption for himself and the courtiers who befriended him.

### *Extraordinary and Occasional Impositions*

In addition to all these exactions, there were occasional impositions on extraordinary emergencies, which were called Jastee Puttee, and Yesksallee Puttee. If these happened to be continued for several years they ceased to be considered as occasional impositions, and fell into the regular Sawae Jumma; but until the introduction of the farming system, they are said to have been as rare, as the occasions which furnished the pretext for them.

### *The Farming System*

The changes introduced by that system, may be described without much difficulty. They were in fact rather aggravations of the evils of the ancient system, than any complete innovations. The office of Mamlutdar, instead of being conferred as a favour on a person of experience and probity, who could be punished by removal, if his conduct did not give satisfaction, was put up to auction among the Paishwa's attendants, who were encouraged to bid high, and sometimes disgraced, if they showed a reluctance to enter on this sort of speculation. Next year the same operation was renewed, and the district was generally transferred to a higher bidder. The Mamlutdar, thus constituted, had no time for enquiry, and no motive for forbearance; he let his district out at an enhanced rate to under-farmers, who repeated the operation until it reached the Patails. If one of these officers farmed his own village, he became absolute master of every one in it. No complaints were listened to, and the Mamlutdar, who was formerly a check on the Patail, as the Government was on the Mamlutdar, now afforded him an excuse for tyranny of bearing the blame of his exactions. If the Patail refused to farm the village at the rate proposed, the case was perhaps worse, as the Mamlutdar's own officers undertook to levy the sum determined on, with less knowledge and less mercy than the Patail; in either case, the actual state of the cultivation was in essentials entirely disregarded. A man's means of payment, not the land he occupied, were the scale on which he was assessed. No moderation was shown in levying the sum fixed, and every pretext for fine and forfeiture, every means of rigour and confiscation, were employed to squeeze the utmost out of the people, before the arrival of the day, when the Mamlutdar was to give up his charge: amidst all this violence, a regular account was prepared, as if the settlement had been made in the most deliberate manner. This account was of course fictitious, and the collections were always underrated, as it enabled the Patail to impose on the next Mamlutdar, and the Mamlutdar to deceive the Government and his fellows. The next Mamlutdar pretended to be deceived; he agreed to the most moderate terms, and gave every

encouragement except Takkavee (advances) to increase the cultivation; but when the crops were on the ground, or when the end of his period drew near, he threw off the mask, and plundered like his predecessor. In consequence of this plan, the assessment of the land, being proposed early in the season, would be made with some reference to former practice, and Saudir Waurid and other Puttees would accumulate, until the time when the Mamlutdar came to make up his accounts; it was then that his exactions were most severely felt; for he had a fixed sum to complete, and if the collections fell short of it, he portioned out the balance among the exhausted villages, imposed a Jaste (Zeddutee) Puttee, or extra assessment, to pay it, and left the Patails to extort it on whatever pretence, and by whatever means they thought proper. We are now suffering from this system, for as we have no true accounts, and are afraid to over-assess; we are obliged to be content with whatever the people agree to. Captain Brigg's collections in Candeish, though willingly acceded to by the ryots, are yet much heavier than any that appear in the accounts during the ten years of oppression that have depopulated Candeish. Some places, no doubt, escaped the oppressions of the farming system. Where a village belonged to a man of influence, or a favorite of such a man, the assessment fell light on him, and he gained by the emigration of Ryots, occasioned by the misfortunes of his neighbours.

The above sources of revenue were collected by the village establishment; the following were in the hands of distinct officers directly under the Government.

### *Customs*

1. Zakaut, or customs - This was a transit duty levied by the bullock load; but the rate varied in proportion to the value of the article; the highest was 8 rupees. It was levied separately in every district, so that property was frequently liable to be stopped and searched. To remedy this inconvenience, there was a class called Hoondeekurrees in towns, who undertook for a single payment to pass articles through the whole country. These men arranged with the farmers of the customs,

and were answerable to them for the sums due. In addition to the transit duty, there was a tax of 12 per cent on the sale of animals included in the Zakaut.

#### *Government Lands*

2. The Government lands were another source of revenue not included in the villages; they were divided into Shairee (cultivated fields); Coorums (grass lands); Baugh (gardens); and Ambraee (orchards).

#### *Sheep Pastures*

3. The sheep pastures - This was a tax paid by the Killarries, or wandering shepherds, for the right to feed their flocks on all waste lands, from the Taptee to the Toombuddra.

#### *Forests*

4. Ramwa (Ranwa?) - A fee paid for leave to cut wood, in the forests belonging to Government.

#### *Town Duties*

5. Kotwallee - This may be called town duties; it comprised, besides the taxes included in Sewaee Jummed, a variety of other imposts, among which the most considerable was a tax of 17 per cent on the sale of houses.

#### *Mint*

6. Tunksaul - The mint.

#### *Sequestration*

7. Wuttun Zubtee - Produce of lands belonging to Zemindars, sequestrated by Government.

#### *Fines and Fees*

8. Nuzzur - Fines, or fees paid on succession to property. If a son succeeded his father, he was not liable to this payment, unless he were a Jageerdar, or other servant of Government. But in cases of

adoption, (that is, in almost all cases, except where a son succeeded,) it was exacted from all persons.

The first six articles were always, or almost always, farmed; the rest were not. The Zakaut, before the cession of Poona, produced about 5 lacs of rupees: the sheep pastures about 25,000 rupees: the mint at Poona yielded 10,000 rupees; the others were confounded (confused?) with the general receipts of the districts where they were situated. The Wuttum Zubtee yielded 50,000 rupees. The amount of the Nuzzurs was too fluctuating to be guessed at.

The Kotwalls set, in Nana Furnavees's time yielded 50,000 rupees; of which a great part was produced by money extorted from persons guilty, or suspected of adultery. Bajee Row, much to his honour, abolished this pretext for extortion; but his lenity was far from being approved by the better part of his subjects. The other articles were trifling. Abkarry, which is so important with us, did not yield above 10,000 rupees. The use of spirituous liqueurs was forbidden at Poona, and discouraged everywhere else; the effect of this system on the sobriety of the people is very conspicuous.

#### APPENDIX

*Extract of a letter from Captain GRANT, Political Agent at Sattara, to the Honorable M. ELPHINSTONE, dated 17th August 1819.*

The hereditary, or those termed such, are the Daishmook, Daishpandy, Nargounda, Desh Chougulla, Patail, Kulkurnee, and Chougulla.

It is not intended to enter on any definition of the duties of these in this report, where I shall merely confine myself by stating generally the claims which they have on the lands and revenues of the district.

Daishmook and Daishpandy are compound Shanscrit words, and the institution of the offices is accounted very ancient. They have been termed Zumindars by Mahomedans, a name which the modern Daishmooks and Daishpandies are



ambitious of retaining, but I have seen nothing to prove their having ever been on the footing of Moghul Zumindars. The only officers, whose situation was nearly approaching the Zumindars of Bengal, were the Mokassdars of the Beejapoor State; but I have nothing very clear respecting them.

The claims of the hereditary officers, or Hugdars, in this district, partake of the intricacy and confusion in which the whole accounts are involved.

The Daishmook's Hug is very variable in Fultan Des; it is one-fourth of the whole revenue; in Kurar, it is a twentieth part of the arable land, and five per cent on the land revenue. In Maunee perhaps nearly the same, but with a claim to one half of all fines levied within the district, which, however, has not been satisfactorily established. In Meerthuree it is the assigned Enam land, and a simple fixed money payment, which is paid wholly or in part. The Daishmook of Waee was the same as Kurar, but the Hug or Wuttun, as the right is termed, was for a time attached by Shaow, the 4th Raja; the ready money Hug was then raised to 10 per cent, and when it was restored to the Pesal (Paishwa?) family, the extra 5 per cent was not given to them, but it was continued on account of Government, under the head of Punchoutra, literally 5 per cent.

To this exaction, and an extra assessment of 2.5 per cent on the Surdesmooke of Waee, may be ascribed the permanent extra assessment of 7.5 per cent on Kurve, which has been already noticed.

The Daishpandy Hug is also not uniform; it may be reckoned at one half of that of the Daishmook; both commonly have claims upon the customs.

The Nargounda has also some claims on the customs; he has his Hug in Enam land, and 2 per cent on the land revenue.

The Desh Chougla's pay is not general; where it is acknowledged, he has Enam land, and a money payment from the Sadilwar.

Daishmooks and Daishpandies style themselves Zumindars, whilst Patails and Koolkurnees come under the general term of Wuttundars. The Petail has Enam land, Mushaira, a ready money payment on the Sadelwarred, an allowance for Serpow, and sometimes, though rarely, a share in the customs; he also receives a contribution in kind from the ryots, termed Googree.

The Koolkurnee has also Enam lands, an assignment in money on the Sadelwar, besides Serpow allowance; the grain payment made to the Koolkurnee is termed Mushaira.

The Chougulla has a smaller share in a similar manner.

The Balootay have land, and a Hug in kind, from the ryots.

In the Mahratta Country all inheritance goes by the name of Wuttun, and no one would willingly part with his Wuttun if much more than its intrinsic value were offered for it. The most serious distress is that of being compelled to sell one's Wuttun. The feeling is singularly strong, and is not easily understood or described; the attachment to a house, a field, or garden, we can enter into, but Wuttun is sometimes merely the right to a few blades of Bajee from the vegetable sellers in the Bazar, which I have seen maintained with an eagerness, which did not proceed from its value, but from its being Wuttun. I have seen two women fight and tear each other in the streets of Sattara because the one had removed a loose stone from near the house of the other, which was part (said the enraged and aggrieved person) of my Wuttun. This feeling will be found universal, but here it is peculiarly observable.

All the hereditary officers can sell their Wuttun, but some require to have the sanction of Government. Consent, I am inclined to think, is always requisite, to be regular, but in some cases, such as Patails or other executive and important officers, it is indispensably necessary. In the sale of every species of inheritance, the next of kin has the first offer, and so down to the nearest neighbour. This is a rule of right, even in the disposal

of a house, which may not have been acquired as patrimony. If the house and street are east and west, the neighbour on the east side has the preference. If north and south, the one to the south has the first offer.

The sale of any hereditary office is a very formal procedure, an attested acknowledgment of the act being voluntary; and proceeding from circumstances, which are to be generally stated, is the preliminary adjustment. I have examined papers of the sale of an hereditary office, and found the amount above 50 years' purchase of all known emolument; but beside(s) the purchase money there are fees to Government, and regular dues to be paid to the other hereditary officers, upon admitting another person into the gate. The whole of the hereditary officers bear witness to the deed of sale, which list of signatures is taken in a public assembly, and is turned to the gate Muhzar. The share of Hug upon customs shall hereafter form a separate report.

The hereditary officers are amenable to a tax called the Dehug Puttee, which is the whole amount of their Hug, exclusive of their Enam lands, and may be levied every tenth year. This has never been regularly levied, and is a very unpopular tax; at first view it seems only reasonable that those officers, when not executive, should be required to contribute something to the exigencies of the State, yet many poor women and families, who have small shares of Hug, would be greatly distressed by it, unless it could be levied on individuals possessing above a certain income derivable from this source: but this would require a minuteness of information, which we cannot easily acquire.

As the extent and assignments of all rent-free lands will be shown in the statements which I shall forward next month, I shall at present pass on to the various tenures of the farmers who pay a revenue to Government, leaving the others at rest for the present.

All persons who possess hereditary right to any fields come under the head of Wuttundars of such and such a village, though they may have actually resided all their lives at Gwalior; whereas all others who do not possess this right, though present in the village, and though they and their ancestors may have resided there for a century, are termed, in common with the passing Marratta traveller, who has slept a night in the Dhurmsala, Oopree or stranger.

The common farmer holds his lands upon a contract, or lease, from the village authorities, which is called his Coul; it is generally renewed from year to year, and seldom exceeds three years: he is obliged to conform to the customs of the village, and commonly pays his Sirkar dues in money; he is said to hold his Kund Mukta, or Oakta.

A Warrenda Kuree is a person who holds lands in a similar manner, but beyond the limits of his own village boundary.

A Sheree-kuree is one who holds lands virtually the property of Government. Sheree is commonly a particular species of property, which may have reverted to Government, either by becoming forfeited, or by some former purchase, for the purpose of planting trees. It may also have been land which, from time immemorial, has not been within the bounds of any village. A Sheree-kuree may be a person holding a few mangoes for the season.

A person renting land under an agreement of paying half the produce in kind is said to hold it in Bhuttoyee.

The ryot, however, whose situation merits most particular attention, is the cultivator of lands in which he has an hereditary and proprietary right, and who holds his land in perpetuity on paying a fixed rent to Government. To this tenure you have particularly directed enquiries, and I shall endeavour to state all I have been able to collect respecting these Meeras lands.

The Meerasdar has, without doubt, a perfect property in his field, as long as he continues to pay the amount with which it may be burdened, together with the right of disposing of it, even without the sanction of Government. How he became originally possessed of this right, it is difficult to account for; there is no direct evidence of the whole land having been all Meerassee in ancient times, but there is a proof in the Thul Jhora, or record of the fields in villages that a vast quantity of the land formerly registered Meeras is now Kund Mukta, or held in common lease.

An opinion prevails that all land was originally Meeras, and that in the ancient Hindoo Raj the soil became the acknowledged property of the person who first cleared it of stones and jungle.

The usual manner of obtaining this right from Government at a more recent period I have already had the honour of explaining in my letter of the 29th of January, on the subject of the Istawa lease; but since I wrote that letter I have had more opportunity of hearing opinions and judging of Maratta feeling regarding this tenure, and I now find it as generally considered an overstretch of power on the part of Government to resume any Meeras field, merely because the Meerasdar has failed in paying his rent, or because he has retired to some other part of the country to evade payment.

Simple insolvency on the part of the Meerasdar does not appear to have given Government the power of disposing of field in Meeras to another. When the Meerasdar cannot pay his rent, the amount of the dues falls on the other Meerasdars should the insolvent Meerasdar remain present in the village; but if he should quit the district, the others are not called upon to pay the rent: during his absence the Government has a right to make the most of the field, and even to let it in lease, but for a period usually not exceeding three years, and till the expiration of which the Meerasdar cannot claim restitution.

The numerous examples of a less forbearing conduct on the part of the late Government can be adduced I am well aware, but there is no species of property in this country that it has so much respected as Meeras land; and though this may have proceeded, in a great degree, from the insignificance of its value, and the loss, rather than gain, which its seizure, or alienation, must have occasioned, and even in cases where immediate advantage would have resulted to the rapacity of Government agents, or revenue contractors, there has always been great consideration shown to the Meerasdar. Instances of declared forfeiture are accordingly very rare; but great crimes, such as treason, robbery, theft, and murder, are always considered as destroying the right to all Meeras, and, indeed, to every species of property whatever: but Meeras land generally goes to the nearest of kin. In all cases it seems to have been considered right that a reasonable provision should be made to relations, even when the ostensible head of a family had committed an unpardonable offence. Had this not been customary, many persons, owing to the divisibility of property amongst heirs, would have been deprived of their only means of livelihood for the commission of crimes in which they had borne no participation. This accounts in some manner for the portions of Hug, &c., which are so frequently credited to Government in the annual village settlement.

Meerasdars, who are absentees, are termed by the Marratas Purgunda. It is so well understood that no Meerasdar wilfully quits his land, that it is considered the duty of a good Patail, and of all superior Government agents, to use every endeavour to discover and remove the cause of his leaving his home and the field of his forefathers. If poverty has been the cause, his rent is remitted, and an advance of money granted; and if it has been occasioned by any unsettled dispute, an investigation and adjustment are promised by Government. Should every inducement fail, and the Meerasdar pertinaciously and unreasonably persist in remaining abroad, he can be required to give in a written renunciation of his Meeras right, which, when obtained, allows the Government a full power of disposing of his lands: but without

this document there is no authority that can dispose of such land in Meeras to another, until the death of the Meerasdar, and the death or renunciation of his heirs. In case of its being thought an object to ascertain this, the mode of doing so is from the village; should the villagers bear testimony to the certain or supposed death of the Meerasdar and his heirs, Government can then dispose of the land to another person in Meeras; and should any heir afterwards appear, he has no claim whatever, unless he can clearly prove that the evidence of the villagers was given, knowing it to be false, or that he had been in such a situation as had put it entirely out of his power to keep the Patail and Wuttundar apprised of his being alive. When such can be proved, he has a right to the field upon the payment of all loss or other equitable charge, either by the Government or the occupant; but under the circumstances just described, and in all others when the field is merely held by an ordinary cultivator, in case of the return of the rightful heir, the Meeras must be restored at the expiration of the lease, which usually is done without requiring arrears of deficiency to be made up, although it is admitted that Government has a right to demand them. As to paying for improvements, the ordinary cultivator had no security until the issue of the late orders for any outlay, and consequently would not incur an expense which was not likely to be returned in crop during the existence of his lease.

Silladars about to take the field, or any person in immediate want of money, frequently mortgage their Meeras land, the value of which of course depends entirely on circumstances.

To form a precise estimate of the number of year's purchase of Meeras land is by no means easy, and will require more enquiry, and much longer experience, than can be obtained in one season. My present notion is, that when the established assessment only is levied, the ryot has, on a fair average, one-third of the gross produce; the Government has a third; and a third goes for seed, Hugdars, bullocks, implements, and subsistence to the cattle; the year's purchase would therefore be found by a series of the years of rent,

and in an average of thirty Deeds of Sale from 1780 till 1810, which have been examined, the general rate is 10 years' purchase.

Industry and natural advantages may improve a field so much as to yield the Meerasdar upwards of three-fourths of the produce. The year's purchase in these cases can only be ascertained by fair statements from the occupant, which I cannot say I have been able to obtain satisfactorily, either from a want of intelligence, or, more probably, of candour, the people cannot yet be brought to understand the intention of such enquiries.

Land held at will, I suppose, may have one-fourth of the gross produce in the hands of the ryots, but for the reason just stated, I have no other means of ascertaining the fact than the following observation.

The Koonbees, not Meerasdar, prefer the tenure called Bhuttoye, that is, dividing the produce with Government to the ordinary farm. The mode of this division is first to set aside the dues of the Patails, Koolkurnee, and Balootay, the quantity required for next year's seed, after which the division is made, and the rest of the Hug dues fall on the Government share; but after the first deductions, the subsequent division, the wear and tear of implements, the purchase of cattle, and finding their subsistence, there will remain little more than a fourth of the gross produce.

Meeras hereafter appears to be a very desirable tenure, as long as the established fixed assessment, usual in the country, continue to be equitably levied; as the Meerasdar has not only much more personal consideration shown to him by his townsmen, but he has all the advantages which industry can give him in the way of improvement. But when pretences were sought of extorting extra payments, it was worse than the ordinary lease, as it placed the proprietor more in the power of the revenue farmer. Thus Meeras land latterly became of no value, and had it been possible for such a system of undefined exaction to have gone on without control for any length of time, it is highly probable that the Meeras tenure would have disappeared.

In estimating what falls to the ryots, of the gross produce, a considerable portion is made up of the daily subsistence he is deriving from his field. If hired labourers are employed, I have, with some precision, ascertained from Bramins who farm in this way, that they derive a profit of one-eighth in an ordinary year; but this is calculated on what they save by the produce of the field for family consumption.

With regard to the tenures of land, there does not seem to be any doubt that the Meeras land was considered private property, in as far as it uniformly descended from father to son, or to the nearest heir, and only reverted to Government on the failure of kin of the former possessor, or its not being claimed by them for a long course of years. The Meerasdar could sell or give it away with the permission of Government, but not otherwise; and as long as he finds his rents, the Government had no right to interfere with his lands; but whether the ground was cultivated or not, he was obliged to make good the rent, according to the Kumal of the village. The word *Thulkurnee* (Thulkuree?) is synonymous with Meerasdar, though it is sometimes confined to a person who himself cultivates his own Meeras land; for a Meerasdar may let his land to any other person, being himself answerable to Government for the rent.

The other lands of the village, which belonged to Government are called *Oopree* or *Gulkoollee* (Gut koollee? escheat), and of them, a portion, called *Shereeshet*, was usually reserved by Government and cultivated on its own account, and was exempted from Gaun Khurch, and some other Puttees. The *Oopree* land was entirely at the disposal of the Patail and Koolkurnees, and was cultivated by Coolumbees, called *Sookwastoo* (tenants during pleasure); as these were guided entirely by their own inclinations, in cultivating the *Oopree* lands or not, the Patails exerted themselves, as much as possible, to induce them to do so, by advancing them seed and money, if requisite. The Patails and Coolkurnees had nothing to do with the Meeras lands, except to report the absence of any Meerasdars from their

villages, to recall them, and make them answerable for the full rent; if they would not return, they seized the land for Government, and employed others to cultivate it, or if they resigned it altogether, they took a writing from them to that effect.

If by any misfortune the crops of the Meeras lands are much injured, it was usual to allow some remission, but not on account of any part remaining uncultivated; whilst the *Oopree* land paid only for what it produced. A very small proportion of the lands of this country are *Oopree*, nearly the whole being Meeras; and it is said by some that there was formerly no *Oopree* land at all, and that it has gradually fallen into the hands of Government, by the failure of heirs of the Meerasdars, or other accidental circumstances, such as quarrels amongst brothers, or relations, about the division of their lands, which they often desired to give up altogether rather than resign to each other any part of what they held to be their rights; or, perhaps, the poverty of the Meerasdars, and declining state of the country, may have induced many to give up their lands.

In support of the conjecture that the whole of the land was formerly Meeras, it may be observed that in many villages the whole of the land is still Meeras, and cultivated by Meerasdars; in others, the whole is styled Meeras, and still stands under the name of the Meerasdars, although part of it has become waste, or has reverted to Government, and is cultivated by *Sockwoostoo*s in consequence of the absence of the Meerasdars and their heirs, or other causes; in many villages, which have long possessed *Oopree* lands, the fields are still known by the name of the Meerasdar to whom they formerly belonged.

The Patails, Coolkurnees, *Deshmook*, *Despandie*, &c., hold *Wuttun* lands in virtue of their office, but they differ from Meeras lands, in that they pay no rent, except in most cases an *Enam Tizae*; that they are attached to the office, and may be sequestered by Government for any offence, which Meeras land cannot, unless for very great crimes, which involve the whole family of the Meerasdar. The Patails and Coolkurnees

can, however, sell part or the whole of their Wuttuns and rights to any person, with the permission of the Deshmookh; and Despandies can do the same. The Patails and Coolkurnees and Zemindars are often also Meerasdars, as well as the inferior officers of the village. In some districts, the Meeras lands pay a triennial tax, called Meeras Puttee, but this is only in the Poona Sooba, and the districts of Jooneer and Soopa. It does not at once appear why the Meeras lands should be so much more valued than the Oopree, since, if equal in extent and quality, they are taxed alike, or rather the Meerasdar pays more than the other, besides the Meeras Puttee, as he must pay for the whole of his lands, whether cultivated or not; whereas it is only the Oopree land actually cultivated which is taxed. There is, however, little doubt that Meeras lands, though rated the same as Oopree, are actually more productive, owing either to their having been all, at some period, Meeras, and the Oopree lands being neglected, and having become inferior; or to the advantages enjoyed by the Meerasdars having been sufficient to induce them to bestow labour and expense in improving their lands above Oopree: for it appears that the Kumal of Meeras land, once fixed, was not subject to any casual increase, in consequence of improvement, as the Oopree was; and we may add, the natural attachment of man to a birth-right handed down to him from his ancestors, and of which he was sure of enjoying the undisturbed possession, as well as the satisfaction of being able to leave to his family an inheritance which seems to have been always respected in a country where every other species of property is so extremely uncertain. It is certain that, although the Native Government may have occasionally seized on Meeras lands for its own purposes, it was looked upon as a great act of oppression; that in the time of Nana Furnavees, when the country was comparatively prosperous, and well cultivated and governed, Meeras lands bore a much higher price than during the capricious and arbitrary Government of Bajee Row;

that the Meeras lands are more improved than the rest; and that a very considerable value is set upon the possession of them by all classes of ryots. If any land, which was wanted for the purposes of Government, happened to be Meeras, some other Oopree lands were given in exchange, and, perhaps, in latter times nothing at all. But even Bajee Row always paid for any Meeras lands which he wanted for his own use, and purchased them from the Meerasdars, generally at their own price, like any private individual. There are instances of Meerasdars having refused him their lands on any conditions, and his being obliged to submit.

The Government was always willing to grant lands to the ryots on the Meeras tenure, on payment of a Nuzzur: this power was in many parts of the country delegated to the Deshmooks and Despandies, and even to the Patails and Koolkurnees. No Sunnud was required, the mere registering of the grant in the village papers being usually sufficient; any ryot, whose ancestors had cultivated a spot of Oopree land, for a certain period, in some places sixty, in others one hundred years, without interference from former Meerasdars, because (became), in fact, the Meerasdar of that land, without any further grant; should, however, the descendants of the former Meerasdar claim, and make good their right within sixty or a hundred years, a part of the land was restored to them, and the remainder confirmed to the Meerasdar; after that period all former claims were superseded.

The Government could grant Meeras lands in Enam to other people, that is, the revenues of the lands; but as it possessed no rights over the land itself, it could of course transfer none to the Enamdar. Instances of disputes on this point have occurred, but have always terminated in favour of the Meerasdar.

(Signed)

J. MACLEOD,  
General

## GLOSSARY

## List of Unfamiliar Words with Their Modern Spellings and Meanings

Meanings of most of the original Marathi terms appearing in the preceding text have been explained by the authors themselves. However, the modern spellings in many cases are different and they are presented below. Also are given below meanings not appeared in the text.

Spelling Used	Current Spelling	English Equivalent
Adil Shauhee	<i>Adil Shahi</i>	Rule of Adil Shah in Bijapur.
Ambraee	<i>Amrai</i>	(Tax on) mango-groves.
Ayen	<i>Ain</i>	Net, proper.
Ayen Jumma	<i>Aya Jumma</i>	Tax on land to be collected from Meeras.
Bajee*	<i>Bhaji</i>	Vegetables.
Balootee-Bullootee	<i>Balute</i>	
Bullootee		
Baubtee	<i>Babti</i>	
Baugh	<i>Bag</i>	Garden.
Bazar	<i>Bazaar</i>	Weekly Mart.
Bazar Beituk	<i>Baza Baihak(?)</i>	Tax on songs and dance?
Beejapoor	<i>Vijapur</i>	Seat of Adil Shahi.
Beels, Ramoosees.	<i>Bhils, Ramoshis.</i>	A backward tribe. (Scheduled Tribesmen employed also as watchmen, but performing none of the other duties of the Mhar.)
Beitool Maul		Escheats.
Bhutooyee, Bhutyee	<i>Batai</i>	Half-share.
Bramin	<i>Brahmin</i>	
Bukra Puttee	<i>Bakra Patti</i>	Tax on sheep and goats.
Butchappanee		Fee for annual examination of weights.
Candeish	<i>Khandesh</i>	Northern Districts of Maharashtra.
Canooogoe	<i>Kanungo</i>	A revenue official, village accountant and measures.
Carkoon	<i>Karkun</i>	Clerk.
Carnatic	<i>Karnatak</i>	
Chautae, Choute	<i>Chauthai, Chauth</i>	Fourth part.
Chaugulla		
Chougla	<i>Chowgula</i>	
Daischaugulla		
Desh Chougulla	<i>Desh Chaugula</i>	Chowgula for a Paragana.
Choky	<i>Chowkey</i>	Public Place.
Concan	<i>Konkan</i>	Coastal strip of Maharashtra.
Coolcumee	<i>Kulkarni</i>	
Coolumbee	<i>Kulambi, Kunbi</i>	Common farmer.
Coorum	<i>Kurane</i>	Grassland, pasture.
Coul	<i>Kaul?</i>	
Daum	<i>Dam(?)</i>	
Daishmook;	<i>Deshmukh;</i>	Zamindar in charge of a Paragana;
Sirdaishmook	<i>Sardeshmukh.</i>	Officer above Daishmooks;
Sirdaishmooke,		Right to one-tenth of government collections.
Surdesmooke,		
Sir Daishmooke.		
Daishpandies, Daishpandy,	<i>Deshpande</i>	Revenue Officer for Paragana.
Daispandees,		
Daispandees;		
Sirdaispandees,	<i>Sardeshpande</i>	

\* Also Bajee Row for Baji Rao Peshwa.

Spelling Used	Current Spelling	English Equivalent
Deckka		
Dehug Puttee	<i>Dehag Patti</i>	
Devustant	<i>Devasthan</i>	Temple, place of worship; charges derived from offerings to idols.
Dewan	<i>Diwan</i>	Minister, Prime Minister, Emissary.
Dhurnasala	<i>Dharmashala</i>	Serai.
Duftur	<i>Daftar</i>	Documents, Office.
Dukub Puttee		
Durbar khurch	<i>Darbar Kharch</i>	Bribe.
Durrukdar	<i>Darakdar</i>	Officer.
Ein	<i>Ain</i>	Net, proper.
Enam;	<i>Inam</i>	Grant of land;
Enamdars.	<i>Inamdars</i>	Holders of land granted.
Enam Fijavee		Payment of Enamdars, of a third of the government share of their lands yearly.
Enam Puttee	<i>Inampatti</i>	Occasional tax, imposed in times of exigency on Enamdars.
Enam Tizae		Rent paid by government officers on their lands attached to the office (Watan lands).
Fakeer	<i>Fakir</i>	Muslim Mendicant.
Fultan	<i>Phaltan</i>	Name of town.
Fur Furmanesh		
Furnavees	<i>Fadnavis, Fadnis</i>	
Gaum, Gaun.	<i>Gam, Gao, Gaon</i>	Village.
Gaum Nishut (Nisbat)	<i>Gaon Nisbat Inam</i>	Granted by the village as distinct from that granted by government Sarkar Nisbat.
Enaums.		Charges for grass cut on government lands.
Ghas Kuttanee	<i>Ghas Katne</i>	Mountain pass, Plains.
Ghaut	<i>Ghat</i>	House Tax.
Ghur Puttee	<i>Ghar Patti</i>	Crimes.
Goonhgarree	<i>Gunhegari</i>	Contribution in kind.
Googree	<i>Ghugri</i>	(Land or property) whose owner is not traceable.
Gulkoollee	<i>Gat kuli</i>	
Guzerat	<i>Gujarat</i>	
Hemaul		
Havildar	<i>Havaladar</i>	Police Officer.
Hoondeekurrees	<i>Hundekari</i>	Commission agents for payment of customs.
Hugdar	<i>Hakdar</i>	Holder of a right.
Huk Choutae	<i>Hakk Chauthai</i>	Right to one-fourth; a fourth of the fees, levied every year.
Istawa		Agreement for leasing land at concessional rent.
Jageer	<i>Jagir</i>	A feudal land tenure Holder of <i>Jagir</i> .
Jageerdar	<i>Jagirdar</i>	Holder of <i>Jagir</i> .
Jaste (Zeddutee) Puttee	<i>Jasti patti</i>	Surcharge on Tax?
Jastee Puttee		
Jooneer	<i>Junnar</i>	Name of a town.
Jummabundee	<i>Jamabandi</i>	Annual settlement of revenue
Jummabundy		[Assessment Settlement (of tax)].
Jumma	<i>Jama</i>	Income
Kabool Keetba	<i>Kabul</i>	Agreement?
Kumal	<i>Kamal</i>	Maximum.
Kamil		
Khamawis	<i>Kamawisdar?</i>	
Khereedy Jins	<i>Kharedi Jinnas(?)</i>	Purchase of things(?)
Khurbooz-warree	<i>Khurbuz wadi</i>	Melon gardens.
Khurch	<i>Kharch</i>	Expenses.
Khureef	<i>Khurif</i>	Monsoon crop.
Killarries		
Koomar	<i>Kumbhar</i>	Potter.
Koomar Kan	<i>Kumbhar Kan</i>	Tax on the earth dug up by potters.



Koonbees	Kunbi	Common farmer.
Spelling Used	Current Spelling	English Equivalent
Kotwallee	<i>Kotwali</i>	Office of Kotwal.
Kulkurnee	<i>Kulkarni</i>	
Kund Furshee		
Kund Mukta	<i>Khand Mukta</i>	
Kurar	<i>Karad</i>	Karhad town.
Kuree		
Kurve		
Luggun Tukka	<i>Lagna Takka</i>	Tax on marriage.
Mahomedans	<i>Mohammedans</i>	
Mamlutdar	<i>Mamlatdar</i>	Revenue officer of a large district;
Camavisdar	<i>Mamledar</i>	Maratha revenue officer of a small district;
Karnavisdar		
Turrufdars		Revenue officer in charge of a considerable number of villages, working under a district revenue officer (Mamlatdar).
Shaikdars.		Maratha revenue officer under Turrufdars, in charge of four to five villages.
Marratta	<i>Maratha</i>	Maratha rule or rulers; Maharashtra; Maratha caste.
Maunee		
Meeras land;	<i>Miras</i>	Hereditary and saleable property, subject to the payment of a fixed land-tax to government.
Meerassdar,	<i>Mirasdar</i>	Proprietor of Meeras land.
Meerassee	<i>Mirasi</i>	
Meeras Puttee		Meeras Puttee, an additional triennial tax on Meerassdars.
Meerassee tenure	<i>Mirashi</i>	Free-hold land tenure subject to land-tax.
Meerthuree	<i>Neer thadi?</i>	Region along the river Neera.
Menu	<i>Manu</i>	Writer of Hindu law code, Manusmriti.
Mhar	<i>Mahar</i>	Village watchman.
Mharkee	<i>Mharkee</i>	Tax on the Enams (grants) of Mhars; Functions of a Mahar.
Mhys Puttee	<i>Mhais Pattee</i>	Tax on buffalos.
Moguls	<i>Moghuls</i>	Moghul rulers of Delhi.
Mohterfa	<i>Mohturfa</i>	Income-tax on shop keepers, varying with their means.
Mokassa, Mookassa;	<i>Mokasa</i>	Share in the rule and revenue of a village, region, etc.
Mokassadar.		Person having such share.
Muhzar	<i>Mahzar</i>	Agreement, deed.
Mushaira		Remuneration, honorarium, payment in grain.
Nargoond, Nargounda.	<i>Nadgauda</i>	Hereditary revenue office/officer.
Nuzzurs	<i>Najarana</i>	Presents.
Okatee		
Oopri	<i>Upri</i>	
Ooprees	<i>Uparis</i>	Farmers of government lands leased for a short period.
Paishwa	<i>Peshva</i>	Prime Minister, Rulers of Maharashtra in the eighteenth century.
Patail	<i>Patil, Patel</i>	
Paut	<i>Pat lavane</i>	Tax on marriage of widows.
Potedar	<i>Potdar</i>	Silver-smith and assayer of money.
Potenavees	<i>Potnis</i>	Cash accountant.
Prittee-Nidhe	<i>Pant Pratinidhi</i>	Chief.
Punchoutra	<i>Panchotra</i>	5 per cent right to ready money.
Pergunnah	<i>Pargana</i>	Administrative division above a Taraf.
Pesal	<i>Pisal</i>	Name of a Deshmukh family.
Purgunda	<i>Paraganda</i>	Absentee.
Punt-suchew	<i>Pant Sachiv</i>	Chief Secretary.
Punt-Suchem		
Puttee	<i>Patti</i>	Taxes or charges.
Ramwa (Ran)		Fees paid for cutting wood from government forests.

Spelling Used	Current Spelling	English Equivalent
Rubbee	<i>Rabi</i>	Winter crops.
Sadelwarred, Sadilwar, Sauder Warrid, Saudir Warrid, Saudir Waurid;	<i>Sadilwar</i>	Contingent miscellaneous expenses of community;
Mehel Saudir Warrid	<i>Mahal Sadilwar</i>	Contingent expenses of a district, including personal expenses of Mamltdars.
Sahotra		6 per cent.
Sattara.	<i>Satara</i>	Satara city.
Sawaee	<i>Sawai</i>	Extra.
Sawaee Jumma, Sewaee Jummed.		Extra taxes levied, partly on the ryots, and partly on the other inhabitants.
Sebundeas, Sebundies, Sebundy.	<i>Shibandi</i>	A unit of soldiers.
Serpow	<i>Sarpav, Shirpech, Shirpav</i>	Headgear of honour.
Sewajee	<i>Shivaji</i>	King Shivaji.
Shairee	<i>Sheri</i>	Cultivated lands.
Shancrit	<i>Sanskrit</i>	Sanskrit language.
Shaow	<i>Shahu</i>	King Shahu.
Shereeshet		Land reserved by government, cultivated on its own account, exempted from village charges (expenses), and some other taxes.
Sheree-Kuree		
Silladar	<i>Shiledar</i>	Foot soldier.
Sircar	<i>Sarkar</i>	
Sir Patail	<i>Sar-Patil</i>	
Sirdar		Nobleman.
Sockwoostoos	<i>Sukhwastu</i>	Well-to-do (families).
Sookwastoo		
Solabad	<i>Salabad</i>	Permanent, annual.
Sooba	<i>Subha</i>	Region, Administrative division.
Soopa	<i>Supa</i>	Name of town.
Soobehdar	<i>Subhedar</i>	Officer between Mamlutdars and government.
Sunnud	<i>Sanad</i>	Charter, Royal order.
Takauvee, Takkavve	<i>Takavi</i>	Advances (loans) from government for cultivation.
Tankha, Tunkha; Pandee Gunna	<i>Tankha</i>	Assessment (rate) of land revenue for every field. additional levy, equal to 12 per cent on Tunkha, once in 12 years.
Taptee	<i>Tapee</i>	Tapti river.
Thul Jhora	<i>Thal Zora</i>	Record of fields in villages.
Thulkumee.	<i>Thalkari.</i>	Self cultivating Mirasdar.
Toombuddar	<i>Tungbhadra</i>	Tungbhadra river.
Tunksaul	<i>Tanksal</i>	
Toossar (Puttee)		
Turruf;	<i>Taraf</i>	Tax on crops levied on Autumnal harvest (corn-ears are being formed).
		Revenue division, composed of an indefinite number of villages, with perhaps an addition of uninhabited mountain and forest land; Revenue division composed of several Turrufs.
Pergunna, Pergunnah, Purguna, Purgunna; Sircar.		Revenue division composed of a number of Pergunnahs.
Untust	<i>Antastha</i>	Money paid for bribe, Secret account, secret payment.
Vakeel	<i>Vakil, Wakil</i>	Agent, emissary, ambassador.
Veer Hoonda	<i>Vihir Hunda</i>	Extra tax on lands watered from wells.

Spelling Used	Current Spelling	English Equivalent
Wae	<i>Wai</i>	Name of town
Wasool	<i>Wasul, Vasul</i>	Amount realised, recovered, as distinct from imposed
Wan-cheravee	<i>Wan Charai</i>	Charges for grazing cattle on government land.
Wuttun	<i>Watan</i>	Owned free-hold land or a hereditary right to collect fees, a part of the produce.
Wuttundars	<i>Watandar</i>	Land-owner, holder of the right mentioned above.
Yesksallee (Yeksallee)	<i>Eksali</i>	Annual, yearly.
Zakaut	<i>Jakat</i>	Customs duties.
Zemindars, Zumindars	<i>Jamindars</i>	Landlords.
Zubtee	<i>Jupti</i>	Sequestration, attachment.

# REPORT OF THE STUDY GROUP TO FRAME GUIDELINES FOR FOLLOW-UP OF BANK CREDIT

## CHAPTER 3.

### EVALUATION OF THE PRESENT SYSTEM

#### *Review*

3.1 In the early years, bank lending in India was mostly directed to financing of movement of agricultural produce from the grower to the trader, the task of financing foreign trade being handled mostly by foreign banks. Advances were sanctioned against the security of stocks pledged or hypothecated to the banks. Based on English banking practice, the purpose of commercial bank lending in India has traditionally been seen as the provision of short term finance for business.

3.2 With the growth of industrialisation, the same system of bank lending continued with minor changes, and the banker saw his function as meeting also the industry's need for short term funds. Working capital finance was made available ostensibly for acquisition of current assets and as the advances were made available in cash credit accounts, repayable on demand, they were considered short-term in nature and self-liquidating in character. As industrialisation in India was largely promoted by the managing agency houses, the banker sought the guarantee of the managing agents, as an earnest of good management, in addition to the security of the current assets of the borrowing company; security-cum-guarantee advances thus became the pattern of lending to industry. The security-oriented system tended to favour borrowers with strong financial resources, irrespective of their economic function.

3.3 With the advent of planning for economic development and a growing social awareness of the role of bank credit in the economy, it was felt that the prevailing commercial bank lending system had little social content and that it aided concentration of economic power. It was felt too that the system was unresponsive to the needs of the weaker sectors of the economy, small industry

and agriculture, and concentrated instead on security-cum-guarantee-oriented lending to large customers.

3.4 The security-cum-guarantee system of lending was found inadequate also with the termination of the managing agency system. With the de-linking of industrial units from the managing agency houses, the erstwhile guarantors sought termination of the guarantee obligations. The entry of new entrepreneurs into industry, with technical knowledge but lacking financial backing and managerial background, also called for a new approach to lending by banks.

3.5 The purpose and direction of commercial bank lending in the country was questioned by the National Credit Council's Study Group No. 2 (NCC Study Group) appointed in October 1968, to examine the extent to which credit needs of industry and trade were likely to be inflated and how such trends could be checked. Its report commented extensively on the shortcomings of the prevalent system of lending to industry and came to the conclusion that the security-oriented approach to lending had led to over-financing of industry in relation to production trends as also with reference to inventory in industry. The NCC Study Group recommended, *inter alia*, that banking system should turn to financing of industry on the basis of a total study of the borrower's operations rather than on security considerations alone.

#### *Supply of and Demand for Funds*

3.6 Nationalisation of the major commercial banks in 1969 raised expectations of a new sense of direction in bank lending, and indeed advances to new claimants of credit, and especially to small industry and agriculture, have since gone up. The following table presents the changing picture of utilisation of bank credit.

	Rs Crore		% of Total Credit	
	March 1968	June 1974	March 1968	June 1974
Industry	2,068	4,511	67.5	56.4
- Large and Medium	1,857	3,506	60.6	43.8
		(188.7)		
- Small Scale	211	1,005	6.9	12.6
		(476.3)		
Agricultural and Allied Activities	67	749	2.2	9.4
		(1,117.9)		
Food Procurement advances	109	523	3.5	6.5
		(479.8)		
Other Internal Trade	479	689	15.7	10.9
		(181.4)		
Others	341	1,347	11.1	16.8
		(395.0)		
- Services	N.A.	461	N.A.	5.8
- Personal Loans	N.A.	288	N.A.	3.5
- Miscellaneous	N.A.	598	N.A.	7.5
Total:	3,064	7,999	100.0	100.0
		(261.1)		

Note: Figures in brackets indicate the ratios of the level of credit in June 1974 to the corresponding level of credit in March 1968.

3.7 The public sector too has emerged as an important user of credit in recent years, due both to its growing dominance and its turning increasingly to commercial banks for its working capital finance instead of relying on Government. Its share in total bank credit has increased from 9.7 per cent in June 1969 to 16.7 per cent in June 1974 and this demand from public sector will continue to grow.

3.8 Another new source of demand is the growing awareness of the need to achieve an equitable geographical development of industry, and in its wake the distribution of credit. Many States, where advances as a percentage of deposits are low, are insisting upon a greater utilisation of the deposits collected from within the States for grant of additional advances in those States.

3.9 On the supply side, the resources available to the banking system for advances to the new credit claimants are only the incremental deposits generated every year, after providing for statutory liquidity requirements, because the bulk of its

existing resources is already locked up with the existing borrowers. The statutory liquidity requirements have also risen over the years.

3.10 Banks are major mobilisers of savings and would be looked upon to finance a range of diverse productive and viable activities in the economy. In the last six or seven years, industrial production has risen at a slow pace, but the call on bank credit, essentially for maintaining inventories even at the same level, has gone up with increasing prices. If the growth process is resumed - as indeed it has begun to do - then per-force the volume of inventory required to maintain a higher level of production will increase and correspondingly the demand for bank credit. Banks will thus have to operate in a context in which demand for bank credit for growth requirements will be large and, to raise the matching resources, they will have to adopt some aggressive deposit mobilisation schemes and systems.

3.11 The banking system has no doubt recov-

ered somewhat from the situation of 1973-74 busy season when several banks had to freeze credit abruptly, and the demand for funds in the busy season of 1974-75 has been reasonably met, aided negatively, though, by slack agricultural and industrial production during 1973 and 1974. But the system should get prepared for the year 1975-76 and onwards. When production and investment pick up and demand for credit rises, we will have to be careful not to let recent history repeat itself.

#### *Present Style of Credit*

3.12 The problem of potential imbalance in demand for and supply of funds is accentuated by the manner in which banks extend credit under the present cash credit system of lending, where a banker sanctions a maximum limit within which the borrower can draw at his will. Under this procedure, the level of advances in a bank is determined not by how much a banker can lend at a particular point of time but by the borrower's decision to borrow at that time. When the borrower's need for funds is low, the banker is faced with the problem of large unutilised funds, and when the borrower's need for funds rises, the banker faces the problem of meeting the demand without notice. In fact, availability of funds with the banks and the customers' needs do not always match. For example, during the 'busy' winter months, the customers need more, while the banks have less lendable resources in relation to the demand.

3.13 This state of affairs caused no problem in the years when the credit-deposit ratio in the banking system was low and a sudden spurt in

credit demand could easily be taken care of and access to refinance from the Reserve Bank was easy. With control on monetary expansion as part of anti-inflationary policy and a rise in demand for funds - both from the old and the new claimants - the existing system of bank lending has come under considerable strain and the fundamental weakness of the system has been exposed.

3.14 It is not realised widely that the total limits sanctioned by the banking system exceed even the total deposits, without taking into account the liquidity requirements. As at end June 1974, deposits of scheduled commercial banks amounted to Rs 10,706 crore. As against this, the credit limits sanctioned aggregated Rs 12,880 crore, but the actual utilisation of credit limits granted was only 57 per cent thus in effect, 43 per cent of the credit limits sanctioned had remained unutilised. With even a small increase in the percentage of utilisation, the entire system can be thrown out of gear; and this indeed was what happened at the end of 1973, when, as mentioned earlier, under a fear of credit shortage, everyone wanted to use his limits to the full and several banks were unable to meet the demand for funds under the limits they had sanctioned and were forced to resort to freezing of advances arbitrarily.

#### *Weakness of the Cash Credit System*

3.15 The weakness of the cash credit system can be illustrated by taking the following example of a borrower's financial position:

Current Liabilities		Current Assets	
Bank Borrowings	Rs 75,000	Inventory	Rs 1,00,000
Other Current Liabilities	Rs 10,000	Other Current Assets	Rs 10,000
	Rs 85,000		Rs 1,10,000

3.16 Let us assume that the entrepreneur has raised equity and term loans for covering the cost of fixed assets as well as a portion of current assets. The banker's function is perceived as providing funds required for carrying the balance of the current assets. Against the total inventory of Rs 1,00,000, an advance of Rs 75,000 is sanctioned by way of cash credit. The advance is secured by a charge over inventory with an appropriate margin - in this case 25 per cent - the margin representing the borrower's contribution to carry the current assets.

3.17 So long as there is security, which is

declared in the periodical stock statements, the borrower is permitted to draw up to the drawing limit, computed on the basis of the value of stocks less stipulated margin, or the sanctioned limit, whichever is lower.

3.18 Under this system, it is possible for a borrower to draw against available security and utilise the funds for purposes other than increasing his current assets or repaying his other current liabilities; he can, for instance, use the funds for acquiring fixed or non-current assets, as the following example illustrates:

Current Liabilities		Current Assets	
Creditors for Purchases	Rs 50,000	Inventory	Rs 1,00,000
Bank Borrowings	Rs 75,000	Other Current Assets	Rs 10,000
Other Current Liabilities	Rs 10,000		
	Rs 1,35,000		Rs 1,10,000

3.19. Inventory of the value of Rs 1,00,000 is carries (carried) to the extent of Rs 50,000 by creditors for purchases; but the borrower is enabled to borrow up to Rs 75,000, on the security of stocks worth Rs 1,00,000 less the prescribed margin of 25 per cent, the drawing limit being Rs 75,000. Had the customer drawn genuinely for meeting his current assets requirements only, his maximum eligibility (assuming (assuming) nil contribution from him to carry the current assets) would have been Rs 50,000; the excess of Rs 25,000 he can divert to non-approved uses without the banker's knowledge.

#### *NCC Study Group Report*

3.20 This weakness was highlighted by the NCC Study Group which came to the conclusion that such diversion of bank funds was made possible by the banker's fixation on security under the cash credit lending system. Analysing the function of bank lending, the NCC Study Group felt that while theoretically commercial bank lending was

for short term purposes, in actual practice it was not so. According to the NCC Study Group Report, a large part of bank lending was really long term in character and was repayable on demand only in name. To the extent that outstandings in a cash credit account never fell below a certain level during the course of a year, there was an element of what is called a 'hard core' borrowing which was in reality a quasi-permanent lock-up of bank funds in the borrower's business. The NCC Study Group thought that this 'hard core' borrowing should be repaid by the borrowers as early as possible. This recommendation, however, remained unimplemented. Presumably, the state of the capital market, available facilities to raise term loans and the earnings of the borrowers were thought to be inadequate to provide funds to repay the large quantum of the 'hard core'. The people whom we met were of the opinion that even the present state of the capital market was such that they did not consider it feasible that the 'hard core' part of the current assets requirements as identified by the

NCC Study Group could be financed by industry out of equity in the foreseeable future and that the scope to plough back earnings for the purpose was also limited. During our discussions with representatives of the term financial institutions also, we were told that they could not undertake the responsibility of providing funds for the 'hard core', for they felt that this would only mean further financing of old units, instead of financing the promotion of new industrial activity.

3.21 Most banks in the past generally had a system of supervision and follow-up of the credit they disbursed which was primarily concerned with the safety of the funds lent and keeping the account in order. Competition among banks was not conducive to a bank taking a close look into the affairs of the customer for fear of upsetting and losing him.

#### *Need for Change*

3.22 The time is now opportune to review the existing system and effect changes. It has to be borne in mind that in the current context of shortages, bank credit, if not properly supervised, may be utilised for an undue build-up of stocks, which, while proving profitable to some, will result in misallocation of resources among all. Bank credit has thus a crucial role in allocation of resources to prevent such a chase of scarce materials which fuels inflation. The process of change has already set in since the NCC Study Group's findings in this regard and many banks have, in fact, toned up their credit appraisal and follow-up procedures. This trend was given a further impetus by the changes effected in the Credit Authorisation Scheme of the Reserve Bank in mid-1970. However, in the context of the need

- to meet larger credit demands arising from growth requirements in future, keeping in view also certain priorities laid down by Government and the Reserve Bank, from time to time,
- to curb, at the same time, any tendency on the part of borrowers to build up undue

inventories or to misdirect credit, and  
 - to modify the style of credit so as to make credit planning effective,  
 the process of change has to be taken even further.

3.23 Any new system should, in particular,

- make a customer plan his credit needs in advance and observe a discipline in its use,
- indicate to the banker the likely demand for credit and thus enable him to plan his own deposit-credit function,
- assure finance to industry for its genuine production needs, and
- having provided finance, enable the banker to receive from the customer adequate flow of information on the use of credit, but with circumstances (circumscription?).

## CHAPTER 4.

### RATIONALE OF OUR PROPOSALS

#### *Need for Funds*

4.1 A borrower needs funds for his operation mainly to buy and stock necessary quantities of raw materials and stores and to stock necessary quantities of finished goods. If it is the market practice to give credit on sales, he would need funds for carrying his receivables too. He may also make advance payments for goods and services. All these constitute his needs for funds, to carry current assets.

#### *Different Types of Current Assets*

4.2 Inventory and receivables comprise the bulk of the current assets. The different types of inventory may be described as follows:

- *Flabby inventory*, comprising finished goods, raw materials and stores held because of poor working capital management and inefficient distribution.
- *Profit-making inventory*, representing stocks of raw materials and finished goods held for realising stock profit.



- *Safety inventory*, providing for failures in supplies, unexpected spurt in demand, etc; in effect, an insurance cover.
- *Normal inventory*, based on a production plan, lead time of supplies and economic ordering levels. Normal inventories will fluctuate primarily with change in production plan. Normal inventory also includes reasonable factor of safety.

4.3 There could be yet another type of inventory, viz., *excessive inventory*, which even an efficient management may be compelled to build up for reasons beyond its control, as in the case of a strategic import or as a measure of Government price support of a commodity.

4.4 *Flabby inventory* should not be permitted, and *profit-making inventory* ought to be positively discouraged - both are selfish and an inequitable and inefficient use of resources; as regards *safety inventory*, good management should bring it down to what disciplined experience, subjected to periodical statistical checks, will justify. Carrying inventory in excess of the *normal inventory*, which includes reasonable factor of safety, is but an avoidable luxury which the banker should not encourage.

4.5 If one were to analyse the *normal inventory* further, this is of two parts - one which fluctuates and the other steady. In the steady part also, there is a further 'core' which is a fixed element; this 'core' represents the absolute minimum level of raw materials, process stock, finished goods and stores which are in the pipe line, so to speak, to ensure a continuity of production. Funds invested in core inventories, comprising process stock plus minimum raw materials and finished goods and stores, are therefore blocked, on long term basis, arising out of technological and business considerations, as is the investment in fixed assets such as machinery and buildings.

4.6 There are three factors influencing the level of receivables, viz., the normal credit in tune with the borrower's and his industry's market practices, deliberate elongation of credit, and slow billing/collection procedures. Theoretically speaking, there is no irreducible minimum in receivables as these can be brought even to zero. Receivables not in tune with the unit's and its industry's practices should not be financed by the banker.

#### *Reasonable Levels of Current Assets*

4.7 There is no uniformity in approach among banks in assessing working capital requirements, especially with regard to inventories. This divergence is also sometimes found within the same bank. If bank credit is to be viewed as a tool of resource allocation in the economy, one cannot get away from the need to define norms for reasonable levels of inventories (including safety stock) and receivables in each industry. One of our terms of reference, therefore, appropriately requires us to make suggestions for prescribing inventory norms for different industries, both in the private and in the public sectors, and to indicate the broad criteria for any deviations from these norms.

#### *Purpose of Bank Lending*

4.8 In the new context, the main function (function) of a banker as a lender is to supplement the borrower's resources to carry an acceptable level of current assets. The implications are two fold; one, the level of current assets must be reasonable and based on norms; two, a part of the fund requirements for carrying current assets must be found from long term funds comprising owned funds and term borrowings including other non-current liabilities.

## CHAPTER 6.

## OUR PROPOSED APPROACH TO LENDING

*Working Capital Gap and Bank Finance*

6.1 As discussed in Chapter 4, a banker's main role, as a lender, will be to supplement the borrower's resources in carrying a reasonable level of current assets in relation to his production requirements.

6.2 Stated differently, we would expect the borrower to hold only a reasonable level of inventory and receivables, according to the norms. The total current assets will be carried partly by a certain level of credit for purchases and other current liabilities. Funds required to carry the remaining current assets may be called the working capital gap which can be bridged partly from the borrower's owned funds and long term borrowings and partly by bank borrowings.

6.3 In the context of the above approach, there are three alternatives for working out the maximum permissible level of bank borrowings:

- (i) Bank can work out the working capital gap, i.e., total current assets less current liabilities other than bank borrowings and finance a maximum of 75 per cent of the gap; and balance to come out of long-term funds, i.e., owned funds and term borrowing.
- (ii) Borrower to provide for a minimum of 25 per cent of total current assets out of long term funds, i.e., owned funds plus term borrowing. A certain level of credit for purchases and other current liabilities will be available and the bank will provide the balance. Total current liabilities inclusive of bank borrowings will not exceed 75 per cent of current assets
- (iii) Same as (ii) above, but excluding core current assets from total current assets on the theory that core current assets should be financed out of long term funds, i.e., owned funds plus term borrowing.

6.4 The three alternatives may be illustrated by taking the following example of a borrower's financial position, projected as at the end of the next year.

Current Liabilities		Current Assets*	
Creditors for purchases	100	Raw materials	200
Other current liabilities	50	Stock-in-process	20
		Finished goods	90
	150	Receivables, including bills, discounted with bankers	50
Bank borrowings, including bills discounted with bankers	200	Other current assets	10
	350		370

\* As per suggested norms or past practice, whichever is lower, in relation to projected production for the next year.

6.5 In case the existing net working capital (i.e., excess of current assets over current liabilities) exceeds 25 per cent of the working capital gap (First Method) or 25 per cent of total current

assets/real current assets (in second and third Methods), the contribution from long term sources will ordinarily be to the extent of the already existing net working capital.

First Method		Second Method		Third Method	
Total Current Assets	370	Total Current Assets	370	Total Current Assets	370
Less: Current liabilities other than bank borrowings.	150	25 per cent of above from long (term) sources	92	Less: Core current assets (illustrative figure from long term sources)	95
			278		
Working capital gap	220	Less: Current liabilities other than bank borrowings	150	Real current assets	275
25 per cent of above from long term sources	55		128	25 per cent of above from long term sources	69
					206
Maximum bank borrowings permissible	165	Working capital gap	220	Less: Current liabilities other than bank borrowings	150
					56
		Maximum bank borrowings permissible	128	Working capital gap	220
				Maximum bank borrowings permissible	56
Excess borrowing	35	Excess borrowing	72	Excess borrowing	144
Current ratio	1:17:1	Current ratio	1:38:1	Current ratio	1:79:1

6.6 The First Method would mean the banker financing up to a maximum of 75 per cent of the working capital gap of 220, i.e., 165 and the borrower providing at least 55 out of his long term funds, i.e., owned funds plus long term borrowings. This method will give a minimum current ratio of 1:1.

6.7 The Second Method would mean the borrower financing a minimum of 25 per cent of total current assets (92) through long term funds and the gap, i.e., maximum of 128 (278-150), will be provided by the bank. This will give a current ratio of at least 1.3:1.

6.8 The Third Method would mean a further reduction in bank borrowing and strengthening of the current ratio.

6.9 It is important to note that in an exercise like this for computing the level of bank finance, the classification of current assets and current liabilities should be made as per the usually accepted

approach of bankers and not as per definitions in the Companies Act. For instance, instalments of term loans payable within 12 months from the date of balance sheet are classified by the bankers as current liabilities while it is not so in the balance sheet prepared in accordance with the requirements of the Companies Act. These differences in classification have been brought out in the form for analysis of balance sheet prescribed by the Reserve Bank under its Credit Authorisation Scheme.

6.10 We feel that the Third Method is an ideal to reach as it will provide the largest multiplier of bank finance; the next best method from this aspect is the Second one, followed by the First. However, to avoid hardship to borrowers, we recommend that we should make a beginning with the First Method and then move to the Second and the Third Methods. It is necessary, though, to have a time bound programme and we suggest that banks should initiate immediate action to place all borrowers, say, those having credit limits in

excess of Rs 10 lakh from the banking system on the First Method, beginning with the borrowers having weak financial position, as early as possible, say, within a period of about one year. At that stage, the Reserve Bank may review the system and chalk out a further programme for switch over to the second and Third Methods, in stages, in the light of circumstances then prevailing.

6.11 As regards the proposed programme of change, the Chairmen of banks, whom we met under the auspices of the Indian Banks' Association, were actually in favour of the banks straightway switching over to the Second Method for the reason that some of the borrowers already fulfil the requirement of the First Method. Although most of them accepted the concept underlying the Third Method, they pointed out that much ground work would be necessary to work out core current assets for various industries, which would require detailed studies before this method could be accepted. We suggest that the Indian Banks' Association may consider setting up a Working Group to determine the core current assets in the different industries.

6.12 We also feel that lending up to 75 per cent of the working capital gap as in the First Method is liberal but it is our view that this should be considered as the upper limit. The limit of 75 per cent has been suggested as the first step, particularly to facilitate financial structuring of next companies, setting up projects in backward areas and also for flexibility in restructuring of existing companies with a weak financial base. As mentioned earlier, we reiterate that starting with the First Method banks should gradually reach the ideal of the third. It should be understood that the aim should be to move forward and borrowers who already fall in the third or the second category should not increase their dependence on bank borrowings and revert to the second or first category, respectively. That is to say, their existing current ratio should not be impaired. Also if

the credit needs of such borrowers increase in future, they should not be allowed to slip back from a higher to a lower category.

6.13 Like all changes, our proposals will involve some hardship to those who are beneficiaries under the existing system. Some time is needed by them to adjust themselves to the discipline of the new approach. It is desirable for a banker to recognise the position of his borrower and guide him towards norms and the new system of lending within a reasonable time. The banks will work out the position of the existing customers and any excess over the finance, to which a borrower would be eligible under the new formula, will have to be reduced progressively by transferring the excess to a term loan, to be amortised over a suitable period, depending upon his cash generating capacity, ability to raise additional equity, etc. The amount to be amortised will stand at a higher level in the case of a borrower having a negative working capital (i.e., a working capital debt), as the already existing deficit in working capital will also have to be made up by him.

#### *Aligning Credit with Priority Industries*

6.14 The concept of bank credit forming only a portion of the working capital gap could also be used as an instrument, for influencing the directional flow of credit. It should be possible for the concerned authorities to define from time to time the order of priorities in the economy for different industries and we visualise monetary authorities laying down different scales of financing, as percentage of the working capital gap for the different classes of industries as an important instrument of economic policy, for aligning credit with the priorities for industries. Thus, the relevant percentage could be comparatively low for the low priority industries. Also, when a manufacturer has reached a stable level of production for a reasonable number of years, there is no reason why bank finance should continue to be made available to him on the same scale,

because, if a portion of the finance earlier made available could be withdrawn from him, such funds would be available for promotion of new economic activity. It is thus possible to envisage part of the working capital bank finance also as an assistance for a limited period only, in the same manner as term loans for initial investment.

#### *Funded Debt-Equity Relationship*

6.15 The question arises whether there should be a reasonable relationship between the equity and total term loans (i.e., those from the financial institutions and banks). The term lending institutions insist upon a certain relationship between funded debt and equity according to certain accepted norms and also see that the long term funds are adequate to provide for a margin for working capital purposes. No change is suggested in this practice. However, in future, while finding the new projects, the term lending institutions may provide for margins on the basis of our proposals. It will be useful if the bank which is to finance the working capital requirements is associated at this stage in determining the working capital and margin requirements. If this is done, there will be no need to deviate from the standards of relationship between funded debt and equity, which the term lending institutions normally follow.

6.16 In the case of old units, it may be necessary to transfer, as mentioned earlier, a part of the present cash credit borrowing to a term loan repayable over a period in order to bring financing in line with our proposals. In some of these cases, the funded debt and equity relationship may not immediately conform to the norms laid down by the term lending institutions and the borrowers may have to be given time to bring the position to normal over a period. The banks will, however, have to ensure that, in such cases the total outside liabilities to owned funds relationship is acceptable to them.

#### *Additional Requirement of Credit*

6.17 Another question to be considered is as to how to take care of a request for additional credit from a borrower who already has an excess borrowing under any of the above methods. Such a need for additional credit will normally arise with an increase in production activity. We would expect that if the additional fund needs are on a regular basis, the borrower should bring a matching contribution required under the relevant method of lending. He could do this by retained earnings or by raising additional equity or by issuing debentures or by bringing in more funds in any other suitable manner for the purpose. In very exceptional cases, where the borrower is not able to raise the requisite funds immediately in the aforesaid manner, the banks may consider giving a term loan to a reasonable extent provided the cash generation capacity of the borrower is sufficiently good to take care of the amortisation of the existing term obligations as already stipulated as also the proposed additional loan within a short period acceptable to the bank. Where, however, the additional fund need is for a short duration (e.g., for executing a large export order or a Government contract) and cannot be met from the existing credit arrangement, it should be possible to consider additional credit for such needs without necessarily insisting on matching contribution, only to enable completion of the specific transactions/contracts, on the clear understanding that the borrower would return to the stage as in the relevant method of lending within the stipulated period.

6.18 Apart from the excess borrowing under any of the methods of lending, there may be excess borrowing representing the excess of inventory and receivables *vis-a-vis* the relative norms. In such cases, we do not visualise grant of additional credit facilities on a regular basis until such time as the current assets levels are brought down to the required levels. Grant of additional facilities

on purely temporary basis, however, could be considered but only as an exception, say for purposes like execution of an export order, etc.

### *Proposed Style of Credit*

6.19 Once the quantum of bank funds to finance a reasonable level of current assets is agreed to, there is also need to change the style of extending bank credit.

6.20 The drawbacks of the cash credit system of lending are well known but may be reiterated:

- A bank has no control over the level of advances in the cash credit accounts. No notice is required for drawing under limits that may remain unutilised for long periods.
- A bank is thus in no position to foresee demand for credit. This hampers its credit planning.
- The 'cost' of the operation of the system to the banker, on account of the attendant uncertainties, is high because whatever chances he may take in 'overselling' credit, there will always be a limit to how far he will 'oversell'. And this was indeed what happened in the 1973-74 'credit crisis', when some banks found themselves heavily 'oversold'.

6.21 It has been found in practice that the level of borrowings by industrial units during the course of a year fluctuates from month to month depending on the scheduling of purchases of raw materials and despatch of finished goods. It has also been observed that the outstandings in a cash credit account, particularly in non-seasonal industries, do not fall below a certain level which represent the stable fund requirement during the year.

6.22 We suggest that instead of making available the entire credit limit as a cash credit for a year, it may be bifurcated into a loan and a demand cash credit, which will be reviewed annually.

6.23 The loan component would comprise the minimum level of borrowing which the borrower expects to use throughout the year, which (while) the cash credit part could take care of his fluctuating requirements. As the loan would carry interest throughout the year, it will induce a discipline in the customer to plan his need carefully to ensure that as little of it as possible lies idle - ideally none.

6.24 Non-seasonal industries as well as most agro-based industries with some degree of seasonality can conform to the suggested system without difficulty. In the case of industries with a very high degree of seasonality, assessment of bank finance, i.e., the overall credit limit, may have to be done on the basis of monthly cash budgets, as is being done at present for the sugar industry by certain banks and thereafter also drawings will be regulated by up-dated monthly cash budgets.

6.25 As the intention of introducing the new concept is to bring in a discipline in the system, we suggest that the demand cash credit should be charged a slightly higher rate of interest than the loan component. This approach will give the borrower an incentive for good planning. The cash credit, in any case, involves additional cost and uncertainty to the banker and, therefore, a slightly higher rate is not a penalty. The term loan representing the excess borrowing to be amortised, as mentioned earlier, should also be at a slightly higher rate than the cash credit rate.

### *Proposed Information System*

6.26 In order to ensure that customers do not use the new cash credit facility in an unplanned manner and thus create the same problems as are faced in the present system, we recommend that the financing should be placed on a quarterly budgeting-reporting system for operational purposes.

6.27 The customer will submit a quarterly budget to the banker. The system and the forms earlier envisaged for the purpose were outlined in our Interim Report (Annexure V, not inserted). On the basis of the experience gained and the feed-back received from bankers and the borrowers, on whom they were tried out, we have simplified them considerably; the revised forms are given in Annexure VI (not inserted).

6.28 It would be worthwhile mentioning here about the feed-back on forms received by us from borrowers. The points made were mainly in regard to the secrecy aspect, non-availability of audited financial statements, periodicity of the statements, inadequacy of systems and staff for the purpose in borrower's organisation, and need for simplification of the forms. We are of the view that so long as banks provided the bulk of the funds for running the industry, there should be no hesitation on the part of borrowers to furnish to banks the information required by them. The proposed system envisaged only unaudited information, except for balance sheet at the year end, though we would add that given a streamlined accounting system, one would not expect much divergence between audited and un-audited figures. As regards the periodicity of the data, as the forms are to be used on a roll-over basis, to enable the borrower and the banker to learn from the previous experience, it is only appropriate that the periodicity should not be longer than a quarter. We also expect that the larger borrowers of banks (say, those enjoying total credit limits of Rs 1 crore and above) do have the organisational set-up to furnish the information and if they do not have it, they should, in any case, be able to build up the required systems in their organisations within a relatively short period. Let us add that, during our discussions, both banks and industries agreed with the quarterly information system in principle but only asked for it to be as simple as possible.

6.29 We would also like to sound a note of caution to banks in regard to the borrowers' concern about the secrecy and sensitive nature of the information proposed to be called for from them. It may be agreed that borrowers have been furnishing to banks projected data even now, though not on quarterly basis. Even so, we can appreciate their anxiety and we expect banks to take due notice of their apprehension.

#### *Bill Finance*

6.30 There is an advantage in shortening the transaction cycle and we should consider moving to a 'cash and carry' system which is already being followed by some. However, a further detailed study of its implications may be necessary. While this could, therefore, be the direction of change, sometime it may become necessary for manufacturing units to extend credit to maintain sales. In such cases, apart from loan and demand cash credit, a part of the total credit requirement, within the overall eligibility, could also be provided by way of bill limits to finance receivables. It is desirable that, as far as possible, receivables should be financed by way of bills rather than cash credit against book debts, though we do appreciate that the latter cannot be altogether eliminated, particularly when the period of credit is short and the amount is small. These bills could be on a demand basis or on a usance basis depending on the marketing practice in the industry. Some of the advantages of a bill arising out of sale of goods over the cash credit against book debts are:

- the transaction is easily identifiable,
- there is a definite date of repayment,
- the bill will carry more than one signature if it is on usance basis,
- it represents an easily shiftable asset, and
- when goods are sold on credit to a wholesaler instead of to a user-industry, bank finance for the transaction would in effect be credit for trading purposes; in such cases, bank finance by way of bill discounts would make for improvement in the quality of statistics in

regard to financing of trade. From the standpoint of monetary policy also, such an arrangement would lend itself to better control.

6.31 We are also of the view that, to the extent feasible, the banking system should move towards financing the purchaser, who is in fact the debtor, rather than the seller, who is the creditor. In other words, the seller will be paid off immediately after the sale and bank credit will be extended only to the purchaser. As regards financing of the purchaser, however, there are two different points of view. One view is that purchases should also, as far as possible, be on the basis of bills, for the following reasons:

- the amount will be drawn only at the time of actual need,
- the end-use of credit is automatically taken care of,
- credit to purchaser is directly related to his actual need, which is not the case with the sellers' bills, where credit is extended as a measure of sales promotion, irrespective of the purchaser's ability to pay or his need for credit,
- a bill enables discipline to be imposed in respect of payments for purchases - it ensures timely payment to suppliers, which a system of book entries does not always ensure.

It is argued on the other side that under the revised system proposed by us, the cash credit mode of financing is superior to bill financing in respect of the borrower's purchase operations for the following reasons:

- drawals for non-approved purposes will be detected by the new information system proposed and by scrutiny of cheques; end-use of credit will be effectively taken care of by the proposed information system,
- the cost of operations to the borrower and the banker will be high; borrower will have to pay more for cost of stamp duty while the banker's

administrative cost will go up because of additional paper work without the assistance of mechanisation or computerisation, and

- the advantages of centralised borrowing by way of a close watch over aggregate outstandings, debit and credit summations and borrowing trends would be lost.

In view of the foregoing, without attempting a definitive view on the subject, we would suggest that each bank may take its own decision in consultation with the borrower, having regard to the size of his operations, the individual transactions and the administrative set up obtaining in the bank.

#### *Coverage of the Proposed Approach*

6.32 We recommend that the proposed approach to lending and the style of credit be extended to all borrowers having credit limits in excess of Rs 10 lakh from the banking system as per the schedule suggested in Paragraph 6.10. As regards the proposal (proposed) information system, however we suggest that, to start with, it may be introduced in respect of borrowers with limits of Rs 1 crore and above from the entire banking system. Progressively, banks should extend this system, first to borrowers with limits of Rs 50 lakh to Rs 1 crore and next to those enjoying limits of Rs 10 lakh to Rs 50 lakh.

## CHAPTER 9.

### NORMS FOR CAPITAL STRUCTURE

9.1 The two basic financial ratios which a banker will always look to are the debt-equity ratio (i.e. total outside liabilities to equity) and the current ratio. Our proposed approach to lending discussed in Chapter 6 will take care of the aspect of a satisfactory current ratio. We have also to consider whether norms could be established for the relationship of debt-equity in a industrial organisation.



9.2 The experience of other countries in this matter may not be of much assistance to us in formulating guidelines in the Indian context. We have the case of American companies on the one hand whose financial position is (s)trong and it would obviously be unrealistic to seek such standards in India at this stage. In contrast, we also have the example of Japan where higher debt-equity ratios are encountered but this again cannot constitute a model for us.

9.3 Without entering into a discussion on monetary and fiscal policy or drawing a parallel with other countries, we would stress that the debt-equity relationship is a relative concept that depends on several factors and circumstances such as the stage of the capital market at any one time, Government policy on created money, the need to maintain current assets at a specific level (which again is contingent on other factors), marginal efficiency of capital or the opportunity cost, etc.

9.4 The concept of debt-equity ratio in itself can be viewed from different angles. A widely-held approach - and adopted by the Controller of Capital Issues and the leading term lending institutions - is that of relating long term or funded debt to equity. The banker, besides looking to this ratio sees, in addition, the relationship of total outside liabilities of a borrower to equity; bankers in other countries also look to this relationship. The debt-equity ratio can also be viewed from a different standpoint as the relationship of net worth to total assets of the company, the purpose being to ascertain the owner's stake in the business. In discussing norms for capital structure, we therefore have to keep in mind both the relationships - long term debt to equity and total outside liabilities to equity.

9.5 The impact of taxation in considering this subject is also important for, under the tax structure, it is advantageous to trade as much as possible on borrowed capital to maximise earnings per share. The higher the level of borrowings,

or the leverage, the greater is the advantage; in view of this and coupled with the cheap money policy till recently, there has been limited incentive to the borrower for efficient management of funds. This position has changed somewhat of late with the introduction of higher interest rates in the banking system.

9.6 On the other side, the lending banker likes to see as high an equity stake as possible because it makes his advance safer and, in times of credit shortage, makes available bank funds go further.

9.7 In resolving this dichotomy of interests between the banker and the borrower, one cannot lose sight of the need to promote the capital market, the ultimate goal being to assist to maximise investment and production. If the end-product of industry has to be sold at a cheaper price and adequate dividends are also to be given to make equity attractive to the investor, no company can afford, even if it were possible, to trade entirely on owned funds, nor rely too heavily on borrowed funds. There has thus to be a balance between the two - what the company provides and what it borrows.

9.8 We have had the benefit of the statistics furnished by the Reserve Bank on the financial position of 1,303 companies for three years, viz., 1970-71, 1971-72 and 1972-73. The data have been tabulated industry-wise for 16 industries, separately for public and private limited companies and is furnished in Annexure VII (not inserted). These data should be up-dated periodically. Each industry group is more or less homogeneous. Long term debt-net worth and total outside liabilities-net worth ratios relate to capital structure and are of special interest to the lending banker. In each case, three ratios for latest three years have been provided. Median represents the industry average and quartiles one and three provide the range within which the normal cases fall. Extremes of top and bottom (25 per cent each) cases have been excluded, while these figures cannot, of course, be considered to be the ideal

long term debt-net worth or total outside liabilities-net worth ratios for the industry, they do provide a benchmark of comparison for the banker and the borrower.

9.9 Where a company's long term debt-net worth and total outside liabilities-net ratios are worse than the medians, the banker would endeavour to persuade the borrower to strengthen his equity base as early as possible. We consider

that this would be a more practical approach for the banker than attempting to legislate absolute standards of long term debt-net worth and total outside liabilities-net worth ratios for all industries or even industry by industry. We do not expect a perceptible improvement within a short period. But, the borrowers whose ratios are worse than the median should pursue to reach the median on the basis of the data up-dated by the Reserve Bank.

## DEVELOPMENTAL ALTERNATIVES IN INSTITUTIONAL AND KNOWLEDGE SPHERES

Subodh Wagle

The book under review, as its subtitle suggests, is about alternative forestry, or, in a larger sense, about alternative development strategies. However, it lacks a background discussion on alternative development discourse in general. The first section of this review article, hence, is a brief review of the theory and practice of alternative development intended to provide the necessary substantive context for the readers. The following sections of this review (Section 2 to Section 8) deal with the major issues covered in the book. The last section contains brief concluding remarks from the reviewer.

### *1. Alternative Development: Theoretical Debate and Practical Initiatives*

Though it is more than a decade-old, the theoretical debate on alternative development models as well as practical initiatives and experiments to evolve or establish development(al) alternatives<sup>1</sup> are yet to receive due attention from the mainstream macro-institutions (i.e., academia, media, bureaucracy, legislature, and judiciary). The historical roots of this debate and action could be traced to the discourse and movement of intermediate technology or appropriate technology (AT) in the 1960s and 1970s. Conceptually, the debate on alternative development emerges out of the radical critiques of conventional development from environmental as well as purely political and social perspectives. Apart from the diagnoses of theoretical shortcomings and practical failures of conventional development coming from these critiques, the alternative development debate also contains discussion on a great variety of prescriptive suggestions in this regard. However, the theoretical debate on alternative development and its participants have, at best, weak connections (intellectual or actual) with protagonists of various social experiments

and practical initiatives aimed at finding, evolving, developing, or establishing alternatives to conventional development practices. In most cases, these experiments emerge out of needs or imperatives experienced in real life or out of initiatives and commitment of ideologically inspired individuals. Only in a few cases, they emerge out of a theoretical understanding of the alternative development debate.

To set the context for the review of the book, only few salient features of the debate on alternative development and practical initiatives are presented here. The first salient feature is the conceptual composition of the debate on alternative development. As mentioned before, the conceptual roots of the theoretical debate on alternative development are often traced to radical political, social, and environmental critiques (containing not only diagnostic but also prescriptive aspects) of conventional development. The radical environmental critique could be seen as made up of five streams of radical environmental thinking: deep ecology, social ecology, ecosocialism, ecofeminism, and Gandhian thinking. All of these are environmental critiques in that they primarily object to defilement, degradation, and destruction of natural/ecological systems that take place in the course of conventional development. The radical social critiques of conventional development theory and practice raise objections against various threats, especially, to social equity (equity in terms of caste, religion, ethnicity, gender, etc.) that are posed or sometimes aggravated due to conventional development. Similarly, the radical political critique of conventional development raises objections against political marginalisation (mainly in terms of the denial of or encroachment on political rights of certain sections of people or certain communities) and against various direct

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\* Robinson, Eva Cheung, 1998; *Greening at the Grassroots: Alternative Forestry Strategies in India*, Sage Publication, New Delhi.

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and indirect methods of political repression. All these critiques are called radical because they share a position that the theoretical shortcomings and practical failures of conventional development are not superficial problems of design or implementation of development programmes and policies, rather these are the integral outcomes of the inherent contradiction within the very conceptual core of the conventional development paradigm. The logical outcome of this diagnosis is the basic radical prescription which proposes, as a cure, fundamental restructuring of the conventional development paradigm, as a whole, including its conceptual core, strategies, policies, and programmes. From this basic radical prescription, emerges a host of proposals for alternative development at paradigm, policy, and programme levels. These radical critiques are often analysed in terms of four major components: technological, economic and financial, institutional, and political. Each component encompasses diagnoses of certain issues and concerns as well as relevant prescriptive suggestions for alternatives.

The technological alternatives are more known and discussed, for example, windmills, smokeless wood stoves, solar energy equipment (e.g. solar panels), etc. Two of the much-discussed economic and financial alternatives are 'village grain banks' and savings and credit groups or 'self-help' groups of rural women. The third category of alternatives is institutional alternatives which include various forms of '*sangha*', youth and '*mahila*' (women) *mandals*, *gramsabha*. The fourth category, i.e., political alternatives, includes the new political processes such as public hearings by independent commissions or people's tribunals as well as new mechanisms such as people's tribunals, grass-roots organisations of people affected by development projects, district-level federations of people's organisations (to influence especially the resource allocation and programme implementation activities of district-level government

agencies), and coalitions and alliances at state and national levels (to influence policy-making processes at the respective levels).

The second salient feature of the alternative development debate is its substantive content. To understand this, the debate should be viewed in terms of various substantive issues that are raised in the debate. These substantive issues are either diagnostic or prescriptive in nature. In most cases, diagnostic and prescriptive issues are linked together around a common theme.<sup>2</sup> A list of more than thirty such issues could be made out. These substantive issues could similarly be categorised as economic (including technology-related), social, political, cultural, and epistemic issues. There is a long list of economic issues: centrality accorded to macro-economic growth as the main objective of development in the conventional development discourse; economic implications of modern science and 'high' technology; individual vs. community as the basic economic unit; market vs. the state; process of industrialisation; etc. Two major social issues are: use of patriarchal systems and, hence, aggravation of patriarchal dominance through practice of conventional development model and inevitability and desirability of urbanisation. The nation-state model of political organisation, the large, centralised, and hierarchical political and administrative structures, and the inherent political marginalisation and encroachment on political rights of people and communities are the major political issues. While cultural homogenisation and commercialisation of cultures are the major cultural issues, the main epistemic (i.e., knowledge-related) issues include epistemological arrogance of modern science and reductionist approach of modern science and technology. Such is the wide substantive canvass covered by the debate on alternative development.

Finally, we come to the practical challenges faced by the alternative development paradigm in general and by the initiatives and experiments for alternatives in particular. These major challenges could be seen as evolving from the two most

important lessons to be learnt from the failure of Appropriate or Intermediate Technology (AT) movement in the 1960s and 1970s. The AT movement was focused on providing appropriate technological alternatives to the 'high', capital-intensive, large-sized, centralised, scientifically-sophisticated, labour displacing, and environmentally destructive modern technology which is an inalienable component of the conventional development model. The AT's fundamental prescription was development and dissemination of 'appropriate' or 'soft' technologies that are not labour displacing, but are low-cost, small-sized, decentralised, environmentally friendly, and which primarily rely on local labour, traditional knowledge, local skills, local material, as well as local energy sources. The AT discourse and the movement gained considerable acceptance even from the mainstream. However, apart from few exceptions, the AT movement failed to take roots.

The two critical reasons for failure of AT movement provide two important lessons for the current efforts for alternative development. The first lesson concerns the relevance of alternatives to the needs and expectations of their users in particular and people in general. The above-mentioned 'soft' criteria for 'appropriateness' were scrupulously followed by the AT practitioners while developing AT technologies and gadgets. However, in the process, it was forgotten that it is equally necessary to satisfy the fundamental 'techno-economic' criteria for acceptance of any technology by its users. These 'techno-economic' criteria require achievement of certain minimum levels of reliability, convenience, productivity, and working life and quality of product. These criteria emerge from the basic function of every technology, i.e., to answer the circumstantial imperatives and stand up to the expectations as well as needs of its users. The neglect of these fundamental criteria by the AT movement was one of the prime reasons for its failure. This provides a very important lesson that the proposals for development alternatives should, in the first place, be capable of answering

to the needs as well as expectations of people and communities and provide them tangible, substantial, and direct economic benefits. This involves major challenges for alternative paradigm. For example, the alternative development strategies need to provide practical solutions to the problems of feeding, clothing, housing, and caring for half-a-billion of poor in India.

Coming to the second lesson, the AT movement was founded on the implicit but naive assumption that, once you change the technology, other changes in economy, polity, and society would follow automatically. As the failure of the AT movement demonstrated, appropriate technological gadgets and instruments, by themselves, cannot sustain in the hostile economic, institutional, and political environments. This points at the second lesson for development alternatives. In order to survive, even at micro-level, any alternative initiative should be placed in commensurate technological, economic, political, and institutional environments. Similarly, to succeed at the macro-level, the macro-level strategies for bringing in alternative development should be able to initiate and orchestrate simultaneous development of alternatives in technological, economic/financial, institutional, and political spheres.

The fourth salient feature of the current alternative development debate and practice is their failure, in the first place, to achieve certain levels of sophistication and then to meld with each other to emerge together as a competitive paradigm. Many reasons are cited for this. The first reason is the neglect and derision the alternative development debate received from mainstream macro-institutions - academia, media, judiciary, bureaucracy and legislatures. Despite abundant criticism on the theory of conventional development and equally abundant evidence of practical failures of conventional development policies and programmes, the main protagonists of the conventional development model — the mainstream macro-institutions — completely neglected the debate and practical initiatives of alternative

development. Further, they continued to vehemently support the theory and practice of conventional development. This left absolutely no space or resources within the mainstream for the growth of alternative development theory or practice. The second set of causes of failure of alternative development theory and practice to emerge as a competitive paradigm relate to the failure of the protagonists of the alternative development. There are two groups of protagonists of alternative development paradigm: (a) radical thinkers, researchers, and experts; and (b) radical environmental, political, and social activists. The reasons of failures of the radical theorists are threefold: (a) they simply lack the necessary resources/space to make the alternative development discourse a comprehensive and working paradigm; (b) most of them lack the necessary capabilities including interdisciplinary expertise, political acumen, and insights into the ground realities; (c) they lack a comprehensive and appropriate vision largely because many of them are excessively committed to a particular view-point, ideology, or a cult-figure. As far as the radical activists are concerned, they are completely absorbed in their continuous struggles with hostile forces. These struggles are necessary for their own survival and survival of people and communities whose cause they are championing. At the end of the day, these activists are left with hardly any wherewithal to think or act on alternative development. As a result, the radical thinkers and activists could not achieve the levels of sophistication (in theory and practice, respectively) that are necessary to put up a formidable challenge to the conventional development paradigm.

## *2. The Composition of the Book under Review*

The book under review analyses a project of a mainstream government organisation tailored according to conventional development model as well as three initiatives by proponents of alternative development ideas in the forestry sector. The analysis is carried out in the perspective shaped by radical critiques of development in two

specific spheres — epistemic (i.e., related to knowledge system) and institutional. In fact, the book focuses on one issue each from these two spheres of radical critique (covering both diagnostic and prescriptive aspects). From the epistemic sphere of radical critiques, it chooses the issue of 'confrontation between modern and non-modern knowledge systems' or, in other words, the issue of power relationships in the sphere of knowledge. The issue of 'confrontation of organisational cultures' from the institutional sphere is also under focus (The book deals in detail with cultures of the two organisations, viz., the bureaucracy and voluntary agencies). The mainstream development project examined in the book is the 'Social Forestry Programme' (SFP) of the State Government of Andhra Pradesh (AP). The book also examines alternative initiatives in forestry by three voluntary agencies in the same state. As stated earlier, this comparative analysis is focused only on the above-mentioned two issues.

The book is divided in six chapters. Chapter 1 provides a brief overview of the Social Forestry Programme, especially its rhetoric and claims made on its behalf. The second chapter is devoted to a detailed review of the 'Andhra Pradesh Social Forestry Programme' undertaken by the state of AP in particular and, to some extent, to a review of SFP's of the other state governments in general. This chapter also contains a brief historical review of forestry operations and forest bureaucracy in India. The third chapter is entirely devoted to the discussion on the issue of 'authority and power in knowledge', with a review of literature on the issue. Chapter 4 examines, from the 'institutional' perspective, the functioning of the alternative practical initiatives of the three voluntary agencies chosen for the case-study. As against this, the fifth chapter investigates the efforts of these three alternative initiatives and outcomes of their efforts from the 'knowledge' perspective. Chapter 6 presents the concluding remarks from the author of the book.

### 3. *Brief Overview of the Social Forestry Programme*

The Social Forestry Programme (SFP), which was touted as 'forestry for the people, with the people and by the people', was conceived in the 1970s and took its present shape in the mid-1980s (p. 15). However, according to the author, the underlying rationale of this purportedly 'people-oriented' programme was quite conservative. This rationale views rural people as (unfortunate) culprits of the deforestation and environmental destruction. The author explains: 'Village forests were considered to have been destroyed by growing numbers of rural poor and livestock which, in turn, exerted pressure on the reserve(d) and protected forests. This resulted in environmental deterioration, droughts and soil erosion. ... The poor did this by overgrazing and fuelwood collection' (p. 13). To demonstrate the official acceptance for this position and preponderance of this rationale in the popular press, the author provides quotes from the report of the Director General of the Indian Council of Forestry Research and Education and from the report appeared in the *Indian Express* (Pp. 13-14).

The SFP, which was considered as the prescription to the above-mentioned problems created by the poor, had two major objectives as follows: 'to meet the needs of "fuelwood supply to replace the use of cowdung; provision of small timber supply; fodder supply; protection of agriculture(al) fields against wind erosion; and recreational needs"' (p. 14). Under this programme, three major activities were recommended, viz. community woodlots, strip plantations (plantations on strips of land), and farm forestry. Later, the governments directed that involvement of voluntary organisations was also to be encouraged in SFP. The SFP did not only receive government support but also received generous backing from international aid agencies and the multilateral banks, amounting to total external support of US\$ 900 million between 1980 and 1991 for twelve projects in fourteen states.

The SFP also attracted wide criticism. Doubts were expressed 'whether social forestry has been conceived as a strategy to help the rural people or as a mechanism to seek funding for state expansion of commercial (conventional) forestry' (p. 15). It was also suggested that the SFP 'could be viewed as a strategy to keep people out of the forests, thus relieving the pressure on state-owned forest lands' (p. 16). While highlighting vacuousness of claims of the SFP being people's forestry, the radical critics dismissed it as 'yet another stage in the "industrial orientation of Indian forest policy" or as production forestry under another name' (Pp. 11-12).

The critics of the programme also pointed out that reasons for its failure to achieve the desired 'people-oriented' objectives were inherent in the SFP programme itself as well as in the institutions implementing it. The critiques particularly single out institutional difficulties including the mismatch between priorities of the forest departments and those of local people as well as attitudinal problems of personnel of forest departments which looked down upon people, their priorities, their abilities, and their knowledge.

The author of the book especially points out three areas of failure of the SFP: 'the lack of people's participation; the disproportionate accrual of benefits to the richer farmers; and the lack of results in increasing fuelwood (as well as fodder and small timber) supply' (p. 18). First, the lack of people's participation was traced by the author to the following major factors: the target-centered and tree-centered approach taken by the forest departments instead of a people-centered approach; old animosities between forest department's staff and local people; reluctance of the staff to share resources, knowledge, and decision-making power with local people; and para-militaristic organisational culture of the forest departments. Second, the richer farmers were benefitted mainly because of the SFP's emphasis on farm-forestry (i.e., plantation of commercial trees on private agricultural lands) at

the cost of other two components of the SFP, viz. community woodlots and strip plantations. As a result, those who did not have land were automatically excluded. Finally, according to the author, the emphasis on exotic varieties such as eucalyptus, casurina, and tropical pine in the SFP along with the neglect of many appropriate local species for fuelwood, fodder and small timber led to the failure to achieve the objective of supplying local people's needs.

In concluding the first chapter, the author reiterates the overall consensus outside the official circle on 'the irrefutable failure of India's social forestry effort (programme) in meeting its primary objective' (p. 22).

#### 4. Bureaucracy and Forestry

In the beginning of Chapter 2, the author provides a brief history of development of bureaucracy in forestry sector in India after the colonial rule was established. According to the author, the major distinction between the pre-colonial and colonial forestry practices was elevation of 'commercial values and scientific methods' above 'subsistence values and traditional knowledge about trees' (p. 23). The author further explains that 'the earlier, (pre-colonial) approach to forestry emphasised sustainable resource use with religious sanctions and social regulation' (p. 23). The author cautions against 'an overly romanticised view of pre-colonial forestry' which tends to claim that 'deforestation and commercialisation were unknown before the colonial period' (p. 23). However, she notes that 'the earlier deforestation did not reach anywhere near the same level as that unleashed during the colonial period' (p. 24).

The author lists three sets of needs or demands which caused destruction of Indian forests during the colonial times: (a) demand for Indian teak for ship-building for the Royal Navy in Britain; (b) need to increase agricultural land for getting increased land revenue; (c) demand for Indian *Sal* trees for building railway. In the context of these

needs and demands of colonial masters, the Forest Department was created in 1864 with the objective 'to use the principles of scientific management to maintain India's natural forests as a resource for the colonial state' (p. 24). This department was provided with necessary powers through the enactment of the Indian Forest Act in 1865 (revised in 1878). The Act firmly 'established the state monopoly over all the subcontinent's natural forests' (p. 25).

Even after independence, the bureaucracy and its attitude towards forests and people residing in and using forests remained same. The state continued to wield monopoly rights over forests by subjugating claims and interests of local people. Emphasis on commercial forestry oriented to the needs of industries (especially pulp and rayon factories) and the resultant emphasis on fast-growing species of trees continued in this era. This made eucalyptus and tropical pine the most 'desirable species' (p. 25).

After this historical review, in the second chapter, the author analyses the strengths, weaknesses, and proclivities of the bureaucracy *vis-a-vis* the social forestry programme. This is done through a case study of Andhra Pradesh Social Forestry Programme (APSFP) carried out by the Andhra Pradesh (State) Forest Department (APFD), with financial and technical assistance from the Canadian International Development Agency (CIDA).

From the study of APSFP documents, the author infers: 'the (implicit) goal of social forestry was to keep people out of the state (-owned) forests in order to relieve pressure on reserve forests which promoted commercially valuable species. It appeared that the employment of the term "social" referred to the relief (release) of social pressures, not to the meeting of social needs' (p. 28). The author further observes that even the 'Canadian personnel assigned to monitor the programme' lacked 'the understanding and commitment to the goal of meeting social needs' (p. 28).



Along with these doubts over the very objective of the programme, the author comes up with the following scathing observations regarding the mode of functioning as well as claimed achievements of the APSFP: (a) 'farm forestry on private land continued to account for a sizable portion of the overall achievement' (p. 29); (b) 'commercial species destined for the market dominated the seedling production of government nurseries' (p. 29); (c) about seventy per cent seedlings were distributed to big farmers; (d) the participation of people, in the sense of 'willingness of communities to plant and manage', was poor (p. 30); and (e) 'the participation of women rarely rose above the level of casual labourers in plantation and nursery work' (p. 30).

In the latter half of Chapter 2, the author analyses inadequacies and weaknesses of bureaucracy, especially in the context of SFP which was purported as 'people's forestry'. The author begins with the salient deficiencies of bureaucracies in general. The list produced is quite long. The bureaucracies are said to 'promote a kind of trained incapacity, displacement of objectives, avoidance of responsibility, centralisation of authority and delay in decision-making' (p. 31). It is also said that bureaucracies cannot respond to the needs and expectations of the poor because they have to 'conform to the norms of the dominant society' (p. 31). Coming to the bureaucracies of forest departments in India, the author finds their structure and mode of functioning hierarchical and para-militaristic. Further, she observes that the departments have historically been performing the task of protecting the state-owned forests by keeping people out of the forest. The educational background of the personnel is normally agriculture or forestry sciences, and the subsequent training taught members of these bureaucracies to view trees as commercial products and not as contributors that satisfy rural people's needs of fruit, fodder and grasses. It is also pointed out by the author that the education and training they received, did not prepare the staff members to understand rural situation and people's needs and to work with

them. Naturally, these bureaucracies were structurally and psychologically incapable of handling the SFP, which was supposed to be a people-oriented programme.

The author emphasises that the APFD in particular and forest departments of all other states in general failed to take up the challenge of the people-oriented SFP in both the areas—epistemic and institutional—which are her primary concern. First, there was confrontation between people's knowledge and perceptions about forests and trees on the one hand, and the knowledge and prescriptions of the members of forest bureaucracies in the same matters, on the other. In a way, this confrontation was rooted in the 'technicised' view of the bureaucracy in which trees, forests, and forestry were separated from the local economies, local societies, and local people. In this view, the commercial view of trees and forests was given prominence over the 'livelihoods-oriented' (the author's term, 'subsistence view', is not appropriate and has now acquired a somewhat derogatory meaning) view of local people. As a result, local people's intimate knowledge about the local species and their relationship with local environment became redundant and irrelevant.

Second, according to the author, there also was 'confrontation in organisational cultures between the bureaucracy and the people' (p. 33). The author explains that bureaucracies were saddled with many problems including the impersonal, hierarchical, and specialist-oriented structures, emphasis on individual (rather than on community), and centrality of rules and regulations (and, hence, inflexibility) in its functioning. All this resulted in complete alienation of local people for whose needs the SFP was said to be working. As against this, those sections of population who had vision and interests compatible with the vision and interests of the forest departments participated in and benefited from the SFP.

### 5. The Knowledge and Its Power

The third chapter provides a detailed discussion on the authority and power expressed and exercised through knowledge. The chapter begins by defining the term 'knowledge system' and contrasting the 'scientific' knowledge system with 'traditional' or 'local' knowledge systems. The author defines knowledge system as 'ways of defining reality' (p. 46). While the term 'knowledge' includes 'both implicit and explicit knowledge (i.e.), perceptions of reality which are expressed or which are implied in the actions taken', the term 'system' emphasises that 'this knowledge and actions informed by it are not random but (organised in a) rational and systematic' (manner) (p. 40).

Scientific knowledge is the term often used to indicate the 'modern' knowledge that has come from 'Western' (read European/North American) civilisations. This 'scientific' or 'modern' (the terms are often used as synonymous, which is wrong, both conceptually and empirically) knowledge is considered 'objective, neutral, and universal' (p. 40). It is considered to be uniquely true as it is tested by the academic and research community using 'modern' yardsticks of knowledge.

While its 'unique' ability to understand the truth is used to justify the authority and power of 'scientific knowledge', the main source of its power, according to the author of the book, is the power of the state which accepts it and supports it. This support and backing from the state and from all other mainstream institutions spring from the belief that 'the pursuit of scientific knowledge is paramount and the resulting spectacular technology would be the solution to the country's economic and social problems' (p. 41). The result is 'hegemonic' power accorded to the scientific knowledge manifest in the 'unassailable' status attributed to the modern science and to the scientists practising it as well as in the resultant exclusion of all 'other' knowledge systems and their protagonists.

Apart from this 'scientific' or 'modern' knowledge system, there are 'traditional' or 'local' or 'indigenous' knowledge systems that are 'untested by academia (and, hence) considered unscientific, subjective, and localised' (p. 40). However, the radical or alternative development discourse, especially in the last two decades, has provided much articulated and detailed discussion on 'traditional' knowledge systems. The discourse is inspired by the belief that 'knowledge outside (the) Western / modern / scientific system have an important contribution to make' (p. 42). One of the definitions quoted by the author of 'traditional' or 'rural' knowledge is quite comprehensive: '(an ensemble of) concepts, beliefs, and perceptions of rural people of different gender, class, ethnicity, which are generated, accumulated, and transmitted orally with no written record' (p. 42).

Coming to the power aspect of the 'traditional' / 'local' knowledge systems, as they are not vested with the 'authority of truth' and, hence, not backed by the state, the traditional knowledge systems are often consigned to a status inferior to the 'modern' / 'scientific' knowledge system and excluded from the affairs of the society. Further, as the author points out, mere possession of the 'traditional' knowledge by the rural / tribal people does not mean that ownership of their knowledge and the power that comes with the ownership will be vested in them. There is a danger that the 'outside recognition (of their knowledge) .... may expose them (the rural / tribal people) to further exploitation by those who market their knowledge for financial gains' (p. 42).

The author provides a framework to study the 'confrontation' between these two sets of knowledge systems in terms of two 'ideal types' (*à la* Weber), viz., the 'modern' and 'non-modern' knowledge systems and in terms of the major characteristics of these ideal types. The characteristics of these two opposing ideal-types are mirror images of each other. While the ideal-type of the 'modern' knowledge systems exhibit

characteristics of 'disembeddedness, universalism, individualism, objectivity, and instrumentalism', the ideal type of the 'non-modern' knowledge systems are identified by 'embeddedness, locality, community, a lack of separation between subject and object, as well as a non-instrumental approach' (p. 51).

The term embeddedness of knowledge implies that the knowledge and actions informed by this knowledge have 'social, political, moral and cosmological implications' (p. 51). Or, in simple words, disembeddedness 'means (that) knowledge is regarded as separate from the society from which it springs and to which it is applied' (p. 52). The disembeddedness of modern knowledge system makes it possible to apply it universally and across the time periods. This is because the knowledge, in this case, is freed of the bonds of contextuality. According to the author, the modern knowledge system also separates or disembeds an individual from the community and from its environment. This loosening of bonds between the individual and his/her social as well as natural environments gives rise to subject-object dichotomy. This dichotomy, then, allows evolution of instrumental view of nature in which the human beings (subject) view nature (the object) 'as passive and to be mastered' (p. 53).

In the case of forestry sector, this confrontation between 'modern' (or 'scientific') and 'non-modern' (or 'traditional' / 'local') knowledge systems manifests in terms of 'scientific' forestry versus 'subsistence' forestry. As one can imagine, the 'scientific' forestry enjoys backing of the state or, to be exact, of the forest departments of the state governments. The differences between the two versions of forestry could be seen in terms of their choice of species, location of plantations, management systems, organisational structures, and authority as well as powers bestowed to experts and officials.

The author explains, in detail, the confrontation in terms of the differing attitudes and characteristics of the 'scientific' and 'subsistence' forestry (Pp. 44-46). For example, in the perspective of 'scientific' forestry, 'trees simply became marketable commodities called timber and were no longer an integral part of the (local) subsistence economy . . . slow growing and other species (of trees) of little commercial value were deemed inferior . . . The natural forest was considered "abnormal", diversity of species (was) seen as "chaos" and indigenous trees useful (to local people) for medicine, fodder and fertiliser (were) labelled as "weeds" to be destroyed' (p. 44). This exclusionist confrontation manifests also in terms of 'physical and social exclusion of people from the forests (surrounding them)' (p. 44). This exclusion was brought about by the use of legal apparatus and state institutions which not only established state monopoly over forest resources but also eroded people's rights to their micro-environment (including forests). As a result, practice of forestry as well as knowledge about forests was separated not only from local economies and local societies but even from local ecology.

The author describes in detail the current context in which the confrontation between two knowledge systems takes place again. This context is development which, according to the author, has been 'equated with modernisation (i.e., turning modern from being non-modern or traditional) by both protagonists and critics (of development)' (Pp. 46-47). The process of development is multifaceted and involves 'processes of economic, political, and cultural changes'. However, often, modernisation (and, hence, development) is reduced only to economic changes or rather, to economic growth of society at macro-economic level. The 'modern' or 'scientific' knowledge system is one of the most critical instruments of this transformation called development. The author, however, fails to explain adequately this aspect of instrumentality. This aspect could briefly be explained as follows. The modern knowledge system facilitates these

economic, social, and cultural changes by creating the hard-ware (i.e. large dams, power plants, steam engine, sky-scraping residential buildings, automobiles, etc.) and soft-ware (i.e., various mathematical and statistical techniques, modern laws and acts, and the mechanisms and institutions such as joint stock company or financial derivatives as well as concepts and ideas underlying these mechanisms and tools) necessary for effecting these changes. Moreover, it provides not only epistemological rationalisation but even ethical justification and political legitimisation for everything that is done in the name of development. For example, in the case of social displacement and environmental destruction caused by mega-projects of development, the rationality of the project is established through a series of 'scientific' studies, such as techno-economic feasibility studies, cost-benefit analyses, environmental impact analyses, etc. The potent combination of this epistemological rationality with the overly sanctified and, hence, unassailable objective of the project — viz., development — is considered adequate to establish the ethical validity and political legitimacy of not only the project but all actions thought necessary for the success of the project. As a converse, it is claimed that any opposition to the project is devoid of epistemological rationality, ethical justification, and political legitimacy.

In this process, it is often forgotten that in the above-mentioned rationale the objective of development is reduced to macro-economic growth measured by gross national product (GNP) which is nothing but an abstract construct of statistical science that often has no relevance to real-life world. It is also forgotten that these studies are patently biased as these are based on implicit assumptions that local communities are undeveloped or underdeveloped and hence, in the need of 'development', that their livelihoods are subsistence-oriented and hence, substandard, and that their resources are under-utilised and hence, need to be appropriated. Hence, it is further assumed that all these — people, their resources and their livelihoods — are dispensable and could

be sacrificed in order to achieve macro-economic growth of national economy which is equated with development. Thus, the ethical justification and political legitimisation claimed on behalf of the project is misused to justify the rampart destruction of local communities and local environment as well as the coercion and repression of all those who oppose this destruction.

In the same chapter, the author also initiates discussion on another confrontation — the confrontation between two organisational cultures. The author provides definition of culture as: 'a set of rules, largely tacit and unconscious, that structures our social interaction and, at another level, the values that underlie those rules and give them and our actions meaning' (p. 55). The author explains the confrontation of organisational cultures of government bureaucracies and voluntary organisations in terms of their respective characteristics: 'Bureaucracies tend to be centralised, standardised, hierarchical, and often work against the poor. Bureaucracies also privilege the role of experts who can be obsessed with their narrow professional goals and are often alienated from the problems they are hired to solve . . . Instead of the centralisation, standardisation, and hierarchical relationships (which are) characteristics of bureaucracies, voluntary organisations emphasise local institutions at the village level, differences from one context to another, and a participatory approach to decision-making' (Pp. 56-57).

#### 6. *Voluntary Agencies: Institutional Alternatives*

In the two subsequent chapters, the author investigates forestry related work of the three voluntary agencies in the state of Andhra Pradesh chosen for case studies. The three organisations are: (i) Kadini Integrated and Participatory Development of Watersheds (KIPDOW); (ii) Rayalseema Harijana Girijana Backward and Minorities Seva Samajam (RHGBMSS); and (iii) Gandhian Organisation for Rural Development (GORD).

Though the author has not mentioned it explicitly, as the manner in which the subject-matter of the book is developed as well as some parts of content of these two chapters suggest, Chapters 4 and 5 are aimed at discussing the institutional and epistemic alternatives. This discussion is primarily based on the analysis of three cases studied. The three voluntary agencies represent the institutional alternatives as against the mainstream conventional institutional set-up of state government's forest departments. The alternative knowledge system (consisting of the knowledge base and the practices based on this knowledge) termed by the author as 'subsistence' forestry that emerged or evolved in the course of activities of these three voluntary agencies is considered the epistemic alternative to the mainstream, conventional, knowledge system i.e., 'scientific' forestry. The two chapters are expected to contain detailed discussion of these alternatives.

Coming to the institutional alternatives, the fourth chapter is divided into three parts. The first part of the chapter is devoted to a general discussion on voluntary organisations or voluntary agencies (volags) in India and their history. The second part of the chapter is devoted to description of the three organisations chosen for study, of the area in which they are active, and of their activities. The third part discusses the distinct characteristics of the organisational and institutional methods and activities of these volags. This review is focused only on the third part of the chapter.

The third part is dedicated to the discussion of two major organisational and institutional methods employed by the volags under study: (i) 'building relationships', and (ii) 'process of group formation'. In contrasting the organisational cultures of the two sets of institutions (viz., bureaucracies and voluntary organisations), the author points out: 'the organisational culture of the Andhra Pradesh Forest Department (was) characterised by modern knowledge in its

impersonality and emphasis on expert knowledge. Individualism was highlighted. This was in opposition to the social relations at the village level which emphasised kinship ties, personal interaction and community affiliations, more characteristics of non-modern knowledge systems. Significantly, the relationships between the three voluntary organisations and their project villages were built on personal and daily contacts and (with) an emphasis on people's own ways of knowing' (p. 72). Many other elements of the methodology of building relationship adopted by the voluntary agencies also expose limitations of the mainstream institutions. Volags built effective relationships through daily visits at a time and place convenient to villagers lasting over a period and through face-to-face interactions.

All the three organisations emphasised on the process of 'group formation' to build and consolidate relationships with villages. In fact, it was 'the basis of all their activities' (p. 73). The reason for this emphasis on group formation is explained by the author as follows: 'The unit of community organising must be groups because villagers could not function as autonomous individuals. When individuals were disembedded from their communities (their social and natural environments), they became (more) vulnerable to outside forces which decreased their effectiveness in achieving collective action' (p. 73). Further, the author explains that these groups are different from panchayats or village cooperatives. Unlike panchayats or cooperatives, these groups are not heterogeneous but homogeneous (i.e., their 'members share similar socio-economic status'), not large but small (i.e., 'with membership not exceeding thirty'), governed by or rather sustained by rules and policies established by the group itself, and less susceptible to political party interests due to higher sense of ownership (on part of the group members) (Pp. 78-79).

The process of group formation was seen as part of the philosophy of 'appropriate sociology'. This term is defined as 'the emergence of management systems from within, which allowed people to

maximise the use of available resources without upsetting existing social relationships in the short term' (Pp. 77-78). Coming to the group formation process, the author explains that 'the implicit intention of the *sangha* (group) formation was to change unjust social relationships over the long terms' (p. 78). Concrete goals of the process of group formulation were 'to achieve socio-economic and organisational development: social development in the sense that members of *sangha* (groups) develop self-reliance, confidence, and a spirit of mutual support; economic development (in the form of) their increased access to credit; and organisational development in (the form of) creating a forum for people to meet, discuss and act on issues of common concern' (p. 79).

The three volags employed somewhat different processes for group formation extending for period between three months to two years. KIPDOW and RHGBMSS followed a process consisting of three stages: (i) establishing a relationship of mutual trust; (ii) initiating dialogues on the causes and solutions to problems faced by the villages and understanding village dynamics; and (iii) conducting rapid rural appraisal exercises aimed at evolving 'common understanding and analysis of problems . . . amongst the villagers and between the villagers (and activists)' (p. 80). In the case of KIPDOW, the process of group formation involved three more steps: 'support of some activity towards a common objective, exposure visits to functioning *sanghas* (groups), and, finally, group formation' (p. 80). The third volag, GORD, relied on the '*Gramsabha* model'. In the beginning, through regular visits and discussion on Gandhi's ideas and problems of villages as well as by showing willingness to help in common and personal problems, GORD activists created a foundation for forming *Gramsabha*. *Gramsabha* is a village plenary body consisting of representatives of every family in the village. Families (especially women-headed households) may nominate woman as a representative. *Gramsabha* would deliberate on all issues of common concern and arrive at decisions. These decisions will be

executed by a central committee of five or six (normally male) members which would be nominated and could be replaced by the *Gramsabha*. Evolution of *Gramsabha* is also accompanied by formation of *mahila* and youth *mandals* in the village where members of the respective groups could come together and discuss problems of common concerns.

In the section entitled 'A New Myth or Space for Dialogue?', the author investigates the question whether volags 'could always better interpret the needs of rural people and critically analyse causes of their problems', just because they 'could be strong . . . in building long-term relationships of trust with villages' (p. 84). The author indirectly answers the question in affirmative and explains that this success of volags was mainly due to their 'emphasis on building locally sustainable people's institutions . . . which could become forums for dialogues and collective action' (p. 85). The author explains that even the disagreements and conflict between volag activists and villagers or amongst the villagers were used as 'spaces for dialogue'. In such instances, both local people and volag activists gained new insights and deepened understanding of each other's perspective.

In conclusion, the author points out that the three volags were successful in creating organisational cultures that were distinct from government bureaucracy in terms of their relationship with people and institutional mechanisms they used. The volags built long-term relationships with people that were personal, interactive, and promoting trust. The institutional mechanisms that emerged through activities of volags provided 'a forum for dialogue and (joint/common) action' and achieved 'a certain level of participatory decision-making' (p. 88). The author further adds that such a novel organisational culture contributed 'to the emergence of subsistence forestry practices based on rural people's knowledge' which is the subject-matter of the fifth chapter (Pp. 88-89).

### 7. Epistemic Alternatives: Subsistence Forestry

In Chapter Five, the author describes how the three voluntary organisations, by trial and error, arrived at alternative forestry practices through their activities, which are based on the alternative knowledge system of 'subsistence forestry'. The author begins by contrasting functional aspects of 'scientific' and 'subsistence' forestry:

'In (the case of) "scientific" forestry, (its) authority (of "modern" knowledge) frames a reality of trees as crops to be harvested, and their values expressed in commercial terms. "Useful" species are those which are fast-growing and profitable. "Weeds" are species which have no recognisable market value. (In the process,) subsistence forestry knowledge is devalued, which frames a reality of trees as an integrated part of the rural economy, necessary for survival. By contrast (in subsistence forestry) usefulness (to villagers for fodder, fuel, timber and fibre) is privileged over market value. Trees are seen as savings towards meeting future contingencies rather than crops to be harvested. In India, (the) authority of scientific forestry is backed by the power of the state, the institutional framework of the Forest Departments and the financial support of international donor agencies. People in village communities become powerless as subjects of knowledge rather than knowers themselves' (Pp. 93-94).

The author further points out that these alternative forestry practices represent an 'act of reclaiming subsistence forestry as a viable and legitimised mode of forestry' by the village communities (p. 94).

The author delineates three distinguishing features of these alternative forestry practices. The first is their embeddedness. This could be understood as the degree of relatedness of alternative forestry practices with the 'social and cultural reality' of the community as well as with the economy of the community as a whole. The second distinguishing feature is 'contextuality' which, in other words, means location-specificity

of the knowledge underlying the practice. The third feature is the distinct viewpoint toward nature that is implicit in the practices. Alternative practices imply the relational view toward nature, which is the hallmark of 'subsistence' forestry, as against the instrumental view toward nature adopted by the 'scientific' forestry. In the context of forestry, the relational view of nature considers use-value of trees whereas the instrumental view emphasises their market values.

Thus, the two contrasting categories of 'scientific' and 'subsistence' forestry provide a useful framework for the study of practices of the chosen volags. With this framework in mind, the author describes in detail forestry-related elements of the developmental programmes of the voluntary agencies. The KIPDOW emphasised on protection of existing trees and regeneration of natural forests, instead of taking up plantation of new saplings. This process was not only suitable for the low-rainfall conditions in the area but even was found helpful to small farmers who lack time, money, resources, and confidence necessary for acquiring saplings, planting them, supplying necessary water, and protecting them. The participants in the '*pattas* for the landless' programme of RHGBMSS opted for a mix of agro-horticultural activities where 'agricultural component was for cash or consumption, and the forestry component (was) for use (and support for emergency)' (p. 104). In the case of GORD, the landless families from the Scheduled Castes and Scheduled Tribes came together to develop mixed agro-horticultural plantations in order to ensure 'certain degree of freedom from the dependence on seasonal labour as well as provide food security' (p. 110).

The author also presents a very interesting discussion on choice of species adopted in subsistence forestry practices, especially the emphasis on 'homestead' trees. As the author explains: 'Homestead trees are significant in that they affirm the use-value of trees. Homestead tree products meet the needs of household consumption and generate income which is traditionally

controlled by women' (p. 112). The three different types of homestead trees that cater to three major requirements of the rural households are: (i) fruit trees that supplement consumption and generate cash; (ii) food trees (e.g., drumsticks and curry leaves) that provide nutritional inputs in daily food; and (iii) trees as savings that act as assets which could be disposed off in times of acute financial/economic stress (e.g., eucalyptus and casurina).

#### 8. *Going Ahead on the Alternative Paths*

In the last chapter titled 'Conclusion', the author begins by proposing that the dominance of 'modern' knowledge systems over 'local' knowledge and the dominance of the agencies of the state over people and their institutions feed on each other and, ultimately, lead to suppression of local knowledge as well as utter neglect of local people's needs and aspirations. The voluntary agencies and their efforts to evolve alternative institutions and alternative practices based on 'local' knowledge need to be viewed in the context of this suppression and neglect.

The author, in this context, points out limitations on the voluntary agencies, especially limitations on the scope and reach of their activities. Despite the known problems with government agencies, she suggests that 'government policies and grassroots actions (of voluntary agencies) have to be integrated in order to make a significant breakthrough. . . . The state, as an agent of change, can provide policies and funding for positive social, economic, and political changes, and the redressal of injustices. What it lacks is a mode for engaging community participation. It runs counter to the bureaucratic culture of government institutions. Volags (voluntary agencies), on the other hand, offer skills in relationship-building and group-formation. They have first-hand knowledge of the local situations and are well-placed to promote grassroots involvement' (p. 123).

While concluding, the author also points out that the forestry related activities of the three organisations also represent reclaiming by local people their knowledge about subsistence forestry. In order to make this reclaiming a wide-spread phenomenon, the author points out that the major impediments are tenure of land and trees which, normally, is not accessible to economically and socially disadvantaged people. This question of tenure is closely linked with the question of the dominance of the state over people and their institutions. This is because the same power relationships manifest through the spheres of knowledge, institutions, and economy. Dominance in a single sphere cannot individually be sustained without commensurate dominance in other spheres of social lives.

#### 9. *Concluding Remarks*

The book is an important contribution to literature on alternative development in two major respects. First, it is a welcome addition to the sparse literature that attempts to link theoretical discourse on alternative development with practical field-level initiatives and experiments to find/ evolve alternative paths of development. Second, the study presented in the book also deals with two extremely critical and often neglected spheres of alternative development — institutional and epistemic.

However, the book falls short of expectations raised by its choice of these two distinguishing features. The three most critical shortcomings of the book pertain to the organisation of the book. The first shortcoming is that the book does not provide a proper background discussion on the theory and practice of alternative development which is its main theme. This review article attempts to repair this lacuna, in some measure, by providing a small elucidatory section on alternative development in the beginning. The second shortcoming is the disproportionately long length of sections that provide background material on topics of secondary importance. In this connection, sections covering the following



topics could be cited as examples: Andhra Pradesh Social Forestry Programme, the historical review of voluntary agencies in India, and the information on the three volags, their history and their activities. The space devoted for these sections is disproportionately large considering the total length of the book. Finally, and, as a result, the analysis of the alternatives, especially institutional alternatives, remains somewhat short and sketchy. In the case of institutional alternatives, the author could have articulated other aspects of the new institutional mechanisms as well as the social, cultural, and psychological processes set into motion by these mechanisms. The author could also have discussed the strengths and weaknesses of these alternative mechanisms. In the final analysis, however, the book serves a very important purpose of providing a good idea of the theoretical discourse and practical initiatives of alternative development in somewhat unknown spheres — epistemic and institutional. This has

been done in such an appropriate and able manner that even an uninitiated reader can appreciate and enjoy the book.

## NOTES

1. In a way, both the terms convey the same meaning, i.e., alternative to the current or conventional model of development. However, the term 'alternative development' is used more on conceptual or theoretical plane and in a comprehensive sense, while 'development alternatives' or 'developmental alternatives' are the terms used to convey the practical initiatives, gadgets, institutions, policies, etc., evolved or developed with the aim to establish alternative pathways for development.

2. For example, one of the major diagnostic issues or objections against the conventional development is centrality accorded to the macroeconomic growth. The radical critiques find this centrality at the root of indiscriminate environmental destruction and of legitimisation of repressive political practices. To this diagnostic issue are linked various prescriptive suggestions on the theme of economic growth. Some suggest 'no growth and back to subsistence', some suggest 'steady-state economy', some suggest 'growth with justice'. Thus, all these prescriptives and the diagnostic issues are linked together around the theme of economic growth.

## GENDER INJUSTICE: MARXIST PERSPECTIVES WITH A DIFFERENCE

Suneeti Rao

Political economy is defined as the science of the laws governing the production and exchange of the material means of subsistence in human society. The word 'laws' here denotes conditions and forms that govern production and exchange. But this definition is 'restricted to the evolution and development of the capitalist mode of production' (p. 167). Hence, the need to redefine it was first felt by the working-class theoreticians in search of a more desirable option. After a critical analysis of capitalism as well as formulation of an alternate collective mode of production, they added to the initial economic categories like value, price and profit, some more such as social production and distribution. Social production refers to centralizing all means of production in the hands of the state, with the proletariat as the rulers of the state. Distribution, as distinguished from exchange, 'determines the proportion (the quantity) in which products are allocated to individuals, the latter (i.e., exchange) determines the particular products in the form of which the individual demands the share allocated to him in the distribution; the former represents a social, the latter an individual decision' [Carr, 1952, 1978, Vol. 2, p. 6].

However, in this Marxist reconstruction, as in the earlier economic theories, sexual division of labour is accepted as 'biological' or 'natural'. Early economists, including Marx, never conceive that the rational economic man may one day be 'running into problems because his rational economic wife is no longer taking good care of him' [Folbre and Weisskopf, 1998, p. 171]. Classical Marxist theories overlook both categories of female labour - daily care and maintenance of current and future workers, in fact all human beings, and biological reproduction of future labour power through propagation of the species. Economists, whether capitalist or leftist, hardly ever care for 'caring labor ... particularly

crucial to ... "sex-affective" production, meeting another person's sexual and emotional needs' [Folbre and Weisskopf, 1998, p. 180]. Hence, the need to redefine political economy is once again felt.

The volume under review is a sincere attempt to plug this major gap in the Marxist theories and redefine political economy in Marxist-feminist terms. Yet, unlike the classical Marxist theory, only a critique of capitalism and sex-blind Marxism is presented in the volume. No alternative to their modes of production - capitalist and collective-communist, respectively - is suggested. One wonders whether the author recommends the Marxist prescript of collective, public production, state capitalism with women in control of the state.

The author's task of redefining political economy begins with testing in Asian environs such Marxist economic concepts as capital accumulation, turn-over time of capital, labour theory of value, prolongation of the hours of work, and industrial reserve army. For, he finds that the contemporary production process in Asian economies has progressed up to a point where these concepts have become decisively relevant for interpretation. The author expects the centre of accumulation to shift to the East, with a positive rate of production growth of '7.5 per cent over the last decade' (p. 15) as against the negative one of the so-called advanced capitalist countries for the year 1993. Since the place of women in this process of accumulation is crucial, he sets to highlight their conditions of labour (p. 16). The countries he chooses for this scrutiny are India, Bangladesh and Japan.

In these countries, the majority of women<sup>1</sup> are engaged for most part of their life only with production of use values of direct consumption

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\* Custers, Peter, *Capital Accumulation and Women's Labour in Asian Economies*, Vistaar Publications, in association with the Book Review Literary Trust, New Delhi, 1997; Pp. 401, Price: Rs 260 (cloth).

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and a special exchangeable value, but not the production of exchange values for the market. Naturally, while analysing the nature of women's labour and exploitation under capitalism, the Marxist theories are found inadequate. The obvious option is to augment them by feminist concepts, particularly the four basic currents within feminism, namely developmental feminism, ecofeminism, the German feminist school and socialist feminism, 'each of which have contributed importantly to laying bare a part of women's productive labour' (p. 23), and all of which, except perhaps the socialist feminism, are concerned with the women in the Third World, primarily in the rural economy. With their help, the author undertakes to rebuild Marxist theoretical 'framework which looks at the total social organization of labour, encompassing the two domains of the public and the domestic economy' (p. 100). Marx, who has almost lapsed out of memory after the *perestroika*, is indubitably brought to limelight here, but how far his theories, even after remodelling, hold true in interpreting women's exploitation needs to be seen.

#### PRIMITIVE CAPITAL ACCUMULATION

Using the Marxist concept of original or 'primitive' capital accumulation, the author differentiates between (i) the pre-capitalist 'primitive' capital accumulation through the violent process of 'divorcing the producer from the means of production' (p. 354) which takes place, as a rule, under feudal situations of personal dependence, and (ii) the accumulation proper which is the result of the capitalist mode of production with its material dependence. In the case of former, dispossession of the necessary means of production paves the way for the formation of both classes: of wage labourers and of capitalist entrepreneurs of the commodity-capitalist society. First, the free, common natural resources belonging to the peasants are enclosed, invariably with the aid of laws made by the state. Such enclosures deprive peasants of their community property resources, indispensable for their existence. Later they lead to dispossession of their own resources, pauperization and the simultaneous accumulation with the monied classes.

Marx's analysis of such enclosures of open fields and common pastures of the British peasantry between the fourteenth and the sixteenth centuries, and of the resultant rise of the factory-based wool industry is used as a matrix to analyse the effects of replacement of a comprehensive indigenous overflow system of irrigation in Bangladesh by the construction of 'watertight' embankments and polders during the colonial period. The former with its numerous shallow canals and small containment dams 'ensured health and wealth to Bengal for very many hundreds of years, ... for the dry, spring and summer seasons. ... (while) the embankments created more problems than they solved. They impeded the natural re-fertilization of the soil and had a damaging effect on the natural production of fish' (Pp. 203-04). Embankment schemes, flood control projects and irrigation systems developed and being implemented with foreign aid during the Pakistani rule in Bangladesh and even after the latter's independence in 1971 'are highly questionable methods of water management. Yet a powerful pressure exists to construct them at any cost. The question is: why?' (p. 205). The author argues that they form a 'part of a broader process of dispossession of the peasant population. ... (They) involve the privatization of formerly free water and fish resources' (p. 207; p. 221).

In support of the above argument, the author refers to various surveys between 1960-85 which show that the construction of embankments and polders and the subsequent dispossession of the means of production from the peasants resulted in accumulation of land and other resources in the hands of about top ten per cent of the peasant households with a simultaneous decline in the share of the bottom 75 per cent of the households (Pp. 208-09). This marginalisation is not primarily caused by population growth and the partition of landholdings via inheritance, since during 1981-85, population grew annually at 2.5 per cent while the number of landless households increased at the rate of 3.1 per cent (p. 225). Bangladesh's economy has until then been family-based agricultural economy 'where 40 to 60 per cent of the main staple food crop (i.e., rice)

is produced for home consumption' (p. 216), where '(f)isheries rank only second to agriculture in importance, ... (and where) roughly 5 million people belong to the professional fishermen's community' (p. 205). In such settings one can well confirm the magnitude of the strengthening of 'the capital and power base of the rural rich at the expense of the masses of the rural poor' (p. 208). Simultaneous rise of the commercial elite, who buy off peasants' products at prices so low as not to cover their production costs, further hastens the process of their pauperization.

The author brings out in great details how through flood control projects, access to canals, tributaries, and the water resources therein, like fish, is closed for the majority of peasant population, '(s)ubstantial numbers of ... (whom) engage in subsistence fishing ... by family members' (p. 225), how their inability to meet consumption needs, results in indebtedness and their eviction from their own lands, how market exploitation by the commercial elite leads to their marginalisation and, ultimately, how such landless and land-poor peasant families migrate to unsafe *char* (newly-emerged) lands along the coast, or to inhabitable slums of Dhaka and unfriendly Indian cities. Thus, the reader learns about the ostensible reasons for pauperization.

However, it is not explained how the traditional indigenous system of agriculture and irrigation was thoroughly disrupted. That the British failed to properly maintain the comprehensive canal system, is the only rationalization proffered. Was the neglect of the canal system deliberate? Was this system utilized also for navigation and transport of goods? Was it a threat to the then newly set up railways in which a large share of British capital was invested? The reader would be interested in knowing the reasons for the British neglect of the canal system.

Further, against the background of floods and devastation, which have become a regular feature in Bangladesh, one wonders how successfully the indigenous overflow system of irrigation would have worked in the vastly mutated environs of the river today.

Yet another question which the author himself poses arises: 'In what way are rural poor women particularly affected by the ongoing process of pauperization of Bangladesh's peasant population, of dispossession and the creation of enclosures?' (p. 213). This issue is not convincingly addressed to.

### *Women and Primitive Capital Accumulation*

The author, as seen earlier, argues that Marxist analysis about 'primitive' accumulation depriving subsistence farmers and peasants of employment opportunities, and further leading to the second type of capital accumulation through the capitalist mode of production, industrialization and modernization, now holds true in the case of East Asian countries. He further asserts, with the help of feminist studies, that this process of accumulation is operating in Bangladesh at the cost of women, that the modernization is male-biased, with illustrations, such as follows:

(i) The displacement of women's labour due to the introduction of rice-mills is calculated thus: each custom mill for only one operation, husking, puts about 300 poor women out of work while one automated mill can displace 900 part-time plus 64 full-time (or 180 part-time) women employed in various pre-milling processing operations, such as parboiling, winnowing, etc., in addition to husking. Some skilled male labourers do get employed by the mills, but at the cost of displacing a massive number of women. Earlier, in Bangladesh, there were seven main post-harvest rice processing tasks manually performed, five of them primarily by poor rural women. It is estimated that labour performed on post-harvest processing tasks adds 25 per cent to the value of the rice, and that post-harvest work accounts for 25 per cent of the employment in rice production (Pp. 217-19).

(ii) Another instance leading to exploitation and accumulation refers to women who, due to such displacement, join food-for-work schemes or production tasks in the paddy fields, as they did during the famine of 1974, in order to ensure their and their families' survival. Thus, although, the boundaries between men's and women's work are gradually changing, this change has still 'not

brought equality to women, and the value accorded to women's fieldwork is grossly unequal to men's' (p. 214).

The author relies on the feminists who condemn the male-biased modernization in their analysis. Yet, when they allege to pose an ideological challenge to the classical Marxist view of peasant societies, he is critical of their approach. He blames them for merely denouncing that the establishment of rice mills, instead of helping to lessen poverty, widens the gap between the rich and the poor, but never relating the concrete changes to the overall process of original accumulation (Pp. 219-20). Their approach, he contends, is limited and their challenge unsuccessful 'in superseding Marxist theory ... (because they) overlook the dominant process of class exploitation affecting village women, (i.e., the market exploitation by commercial traders). They do not relate the pauperization of the majority of rural women to the dominant mode of appropriation of the agricultural surplus. Nor do they question the appropriation of common property resources' (p. 223).

Another point of divergence between the feminists and the author relates to the social facets of modernization. He maintains that developmental feminists 'are all concerned with "integrating women into development", enhancing women's output and productivity, and suggesting the best possible state policies for this' (p. 219). Naturally, when due to pauperization women are forced to throw off *pardah* custom and seek non-traditional forms of employment to survive, 'their employment outside the home is hailed by women (activists) as positive change' (p. 214). The author, however, is skeptical about the social consequences of such change. He points out that '(a)s elsewhere, the process of modernization in Bangladesh is being accompanied by an alarming increase in cruelty against women. ... (E)scalation of dowry demands, and the accompanying patriarchal violence are an expression of original accumulation' (p. 222), the social consequences of closure of peasants' avenues for gathering wealth and of the constant threat of their ouster

from the soil. He accuses developmental feminists of not critically investigating these issues and finds faults with their theory on several such scores.

Yet that does not compensate for the lacunae in the author's analysis, in spite of his 'combining the feminist concepts of patriarchy, the sexual division of labour and women's double workload, with the insights provided by Karl Marx' (Pp. 223-24). For instance, when the author asserts that '(u)nequal property relations lie at the root of the system of patriarchy' (p. 220), it is difficult to accept. Even after control over and 'ownership of land and other means of agricultural production, such as ploughs, oxen and sickles, which enables men to dominate women', are lost by the menfolk in Bangladesh through enclosures, and even though 'the process of dispossession affects *male* peasants directly - it is they who are deprived of their status as proprietors' (emphasis added) (p. 221), the subordinate position of women *vis-a-vis* these dispossessed men is not altered. Why?

Generally, unequal property rights of men and women are regarded as the outcome of age-old patriarchal biases and of gender ideologies based on cultural values. Further, even when daughters are given equal right with sons to inherit parental property, their choice of marriage partners is controlled by their parents and brothers. However, the author like other Marxists believes 'that gender relations within propertyless groups such as the industrial proletariat or under socialism would necessarily be egalitarian. ... Engels' emphasis on women's entry into the labour force as a necessary condition for their emancipation has been enormously influential in shaping the thinking of (persons, like the author). ... (A) critical additional point (missed out in Engels' analysis and associated discussions) that needs emphasis is that of *property control*. ... Women's representation in the top political and economic decision-making bodies in such countries (which underwent socialist revolution) remained minimal. For instance, in the late 1970s, in the USSR, Czechoslovakia, Poland, and Yugoslavia, of some 557 top government posts only 27 (that is

under 5 per cent) were filled by women' [Agarwal, Pp. 12-13]. Thus, whether the property is individual or public, women are marginalised as far as its ownership or control is concerned.

Maybe, gender-biased property laws evolved out of rent-seeking male designs in order to 'seriously constrain women's choices to specialize in anything but the provision of care services to family members ... (to) give men control over women's caring services ... (and to) lower the costs of caring services. ... (W)omen who are coercively assigned the role of providing care service may come to internalize this as a responsibility willingly assumed' [Folbre and Weisskopf, 1998, p. 182-90]. Thus, even among the matriarchal communities in Kerala, the actual, *de facto* control and management of the family estate rest with the male members *born* in the family, although only the female members *born* in that family are entitled to legally own it.

Maybe, as women's employment modifies the economics of family life, it leads to their empowerment. Since men eventually gain from their wives' labour force participation, a more egalitarian family is likely to emerge, based on reciprocity rather than on coercion or on internalized norms of maternal responsibility.

Further, in the belief that the historical shift from *mahr* to the dowry system is a trend intrinsically related to the process of primitive accumulation and modernization, the author claims that '(t)he practice of *mahr* reflected, as has been stressed, [by whom?] the need for female labour in the groom's household. A woman's status was low, but the importance of her work was implicitly recognized' (p. 214). Here, he confuses *mahr* with bride-price which is paid in marriage among certain communities to the bride's family who is deprived of her labour on marriage. Female labour, on the other hand, is peripheral to *Mahr*, which comprises groom's 'gifts at the wedding and insurance money in the case of a divorce' (p. 214), an amount he *promises* to pay the bride in the event of a divorce. It is a *Koranic* obligation for the Muslims, since conditions, like one-sided oral divorce in the form of triple *talaq* prevalent

on the subcontinent, the age-old barriers against work outside the home, lack of education and the rule of *purdah*, leave divorced women with hardly any worthwhile means of subsistence. Also, in very rare cases is *mahr* paid promptly in marriage or even on divorce. How far is it then correct to say that a Muslim groom would agree to pay *mahr* to his bride, just because he recognises the importance of the household work that she would be performing after marriage in future?

Second, the author tenuously attempts to explain the adoption of the dowry system of the Hindus in Muslim-dominated Bangladesh by quoting Maria Mies that 'the economic rationale of the dowry system is that it is 'a form of primitive accumulation by men' (p. 223). What Mies discusses is gender injustice whereas the author is concerned in this chapter (Chapter 8) with class injustice and dispossession. Many communities in the subcontinent, which did not have this custom earlier and which neither underwent dislocation nor dispossession, are now adopting it out of various reasons, such as *san-skritization*, urbanization, consumerism, prestige, etc. For, the history of dowry system reveals that dowry is an ancient custom, prevalent among the affluent classes in almost all communities, except some tribal ones.

Third, perhaps what is termed as escalation of patriarchal cruelty to women is merely escalation of visibility of such incidents. Formerly, such incidents were not reported at all nor recorded. Even today, police are generally reluctant to register married women's complaints against their husbands or their in-laws, or even unmarried girls' complaints against their parents or brothers. These are private matters of the patriarch's family and outsiders, even the members of the tortured woman's parental family have no claim to probe into them!

Thus, the author does not succeed in convincing the reader, when here he embarks on relating the two inequalities - class and gender - to rationalize the transition in Bangladesh's social system.

### *Ecofeminism and Primitive Capital Accumulation*

Another aspect of modernization, that the author perceives as abetting the exploitation of rural women in the South East Asian countries, is the Green Revolution - that is, the change-over from the traditional to high-tech farming methods involving the trinity of high response (yielding) seeds (HYV), chemical fertilizers, herbicides, etc., and irrigation - accompanied in most cases with mechanization. In order to analyze the impact of these developments on rural women in India, the author turns to yet another strand of feminism, ecofeminism, and its critique of Western science, the mainstay of the Green Revolution. He finds useful ecofeminist analysis of privatization of common (community) property resources and of undermining of women's position in the food chain in India to sustain their families as well as nature.

The brief history of ecofeminism presented here stresses the contrast in its origin and growth in the West and in India. The author is concerned with the latter as well as with its philosophical and political perspectives. In 'an assessment of the contributions made by ecofeminists to critical economic theory' (p. 252), he agrees that Western science is not only biased against nature but is also patriarchal. It is biased against nature because it has damaged the capacity of nature to creatively regenerate and renew itself (p. 230). In the Western scientific paradigm, there is 'a general misconception that diversity-based production systems are low-productivity systems' (p. 248). Hence, complex, diverse and living ecosystems are reduced to a single component, and the single component to a single function - market exchange. For instance, a forest is reduced to commercial wood, and wood to cellulose fibre for the paper and pulp industry. Colonial scientific forestry in South Asia, thus, violated the integrity of nature, which has always provided sustenance to human societies. Valuable common (community) property resources are enclosed and appropriated for the purpose. It leads to the communities being deprived of their means of livelihood.

Second, Western science is patriarchal because such enclosures affect women and lengthen their working day. Women who used to gather almost daily fuel from the forests for cooking are not permitted to enter the government forests. Irrigation schemes provide another instance where enclosures compel women to travel long distances for water for their drinking and household needs. Use of herbicides and mechanization displace female agricultural labour and HYV seeds marginalize their role 'of "custodians of the common genetic heritage" through the selection, storage and preservation of grain seeds' (p. 244).

Finally, Western science, with its reductionist approach, 'has reduced human capacity to know nature' by excluding other knowers and other modes of knowing. It destroys indigenous knowledge systems developed by local communities, peasants and women. However, with its powerful political and financial backing, Western science is *a priori* declared superior to non-reductionist modes of knowing. It, thereby, creates a new class division between knowers and non-knowers (lay-persons), a sort of 'expert/non-expert divide'.

The author is, all the same, equivocal about some of the ecofeminist accusations against Western science. He joins the ecofeminists in criticising the First World funding agencies for browbeating the Third World countries into accepting the Western modes of knowledge. Simultaneously, he cannot deny that Marxism 'has long accepted Western science's aim of controlling nature' (p. 253).

#### CAPITAL ACCUMULATION THROUGH CAPITALIST MODE OF PRODUCTION

As far as explanation for proper capital accumulation resulting from the capitalist mode of production is concerned, Marx reconstructs Adam Smith's initial (labour) theory of value on the creation of value of goods and its formula, namely,  $v+s$ , which represents variable (wages paid to the workers) and surplus (unpaid labour in the form of interest and profits which accrue to the propertied classes, such as landlords and entrepreneurs). Marx overhauls this formula by adding 'c', constant capital (the value transferred

to the new product from the old values incorporated in the means of production). Marx's formula  $c+v+s$  thus stresses appropriation of the surplus value by the owners of capital with subsistence piece wages for the labour. This appropriation arises out of unequal '(c)lass relations, that is, the differentiated position various social groups hold to the means of production' (p. 20). Marx explains: 'Wherever a part of society possesses the monopoly of the means of production, the labourer, free or not free, must add to the working time necessary for his own maintenance an extra working time in order to produce means of subsistence for the owners of the means of production' (p. 278). Marx refers to it as *production of absolute surplus value* which is defined: 'The prolongation of the working day beyond the point at which the labourer would have produced just an equivalent for the value of his labour power, and the appropriation of the surplus labour by capital' (p. 356).

Indeed, all women, whether working or non-working, toil for long hours of household work. However, Marx, because of a deep patriarchal 'prejudice ... that household labour is not productive' (p. 66), credits only wage labour with causing the accretion of capital. The author is aware that unpaid domestic work of women too contributes to accumulation of capital. Besides, as mentioned earlier, only a few women get economically active in any wage producing activity in the three countries the author chooses to analyse. Naturally, the appropriation of the surplus and the resulting capital accrual have to be, to a greater extent, in the case of unpaid domestic female labour, rather than in that of female waged work. The author, therefore, resolves that 'Marx's formula on the value creation needs to be transformed' (p. 87). How? He extends the Marxist formula by incorporating the unpaid labour of housewives, in order to give weight to women's contribution to value creation. He argues that the content of these three elements, variable ( $v$ ), surplus ( $s$ ) and constant capital ( $c$ ), 'contain, apart from the labour performed directly under the entrepreneur, labour performed indirectly to their benefit (i.e., by women at home).

The production of surplus value involves twofold exploitation - of the domestic slave and the wage labourer' (p. 99).

This altered Marxist formula on capital accumulation is supplemented further with Marx's analysis about piece wages and subcontract relations - a chain of parasitic middlemen between the capitalist and the wage labourer (p. 126). Subcontract relations exist, when there is a chain of middlemen subcontracting the work, either local or worldwide through agents. The Marxist analysis is illustrated in the book with an assessment of the readymade garments sector in Calcutta, West Bengal, and in Dhaka and Chittagong in Bangladesh, in view of the following facts:

- (i) This sector plays a vital role in the economy of these countries.
- (ii) It is representative of the exploitative production relations. In this sector, traditionally set aside for sweat labour, sewing operation accounts for a much larger proportion of total costs in the production process.
- (iii) Low-wage developing countries in South and South-East Asia provide cheap labour for this operation. Thereby, they have a competitive edge in international trade but also contribute to the ongoing process of capital accumulation. And
- (iv) in West Bengal, there is a domestic chain of middlemen, with Calcutta's traders at the top of the production pyramid while in Bangladesh, factory manufacturers are chained *globally* through agents in Hong Kong and South Korea, with garment companies in the United States and Western Europe at the top. When the process of international restructuring started in the 1950s and 1960s, with the primary aim of evading high labour costs, the relocation from North Europe was to the Southern European countries, like Greece, Spain, Portugal and Italy, then to countries in the Middle East, like Morocco and Tunisia, then to the newly industrialized countries (NIEs) of East Asia, like Hong Kong, Singapore, Taiwan and South Korea and, finally, to the South Asian countries, like Bangladesh, Indonesia, Pakistan and India, and also to the



Central American and Southern African countries. 'The world market in the readymade garments, over the decades, has been a process of "run and re-run" - of a second transfer of production from one area in the Third World to another one. ... In order to evade the quota system which limits each Third World country's access to the markets of countries of the North, it is, in particular, the final stage of production of clothing (i.e., stitching and ironing) which is time and again shifted to new "pastures" - countries where an easily exploitable workforce is at hand' (Pp. 136-38).

The conditions here conform with one of the earliest Marxist feminist's, Rosa Luxemburg's, reconceptualization of the world economic system, 'that capitalism has never been a closed system, but has throughout its historical evolution needed the exploitation of non-capitalist strata and milieus' (p. 261). The author avoids to apply this analysis here, in spite of quoting it elsewhere (Chapter 10) in this book. Maybe, one of the reasons for doing so is that all through the book he chooses to prove the primacy of Marxist conceptions over the feminist ones!

#### *Accumulation and Home-based Decentralised Production*

In the analysis of female homeworkers in the readymade garment sector in Calcutta, the author debates over the applicability of theoretical conceptions that would expose to the maximum the vast differences in conditions of work between the formal (modern, organized) sector and the informal (traditional, decentralized and unorganized) sector. He argues that 'Marx's analysis (of piece wages and time wages), written 130 years ago, is exactly the same as what exists today in the garment sector in West Bengal' (p. 126).

Nevertheless, the author himself points out that the garment sector in and around the Calcutta city is characterized by many of the features of the renewed dualism theory which holds that the Third World economies suffer from such dichotomy. The dualism theory used to initially

refer, on the one hand, to an urban market economy usually of a capitalist nature and, on the other hand, to a rural subsistence economy mainly characterized by a static agricultural system of production. The theory assumes a certain socio-economic duality which (i) originates in a different phasing of development; (ii) evokes the contrast between modern and traditional, capitalist versus non-capitalist, and industrial-urban as against agrarian-rural modes of production; and (iii) helps to transfer surplus labour from the rural subsistence sector, in order to increase non-agricultural production in urban areas (dynamic centres) with their modern industries. However, the expansion of industrial employment opportunities generally lags far behind the growth of the urban labour force. 'The low rate of industrialization and the presence of surplus labour are listed as principal reasons why a dualistic system has sprung up in the cities of the Third World' [Bremar, 1994, p. 5]. Hence, the concept of dualism is renewed. 'The notion of dualism refers sometimes to distinctive employment situations, sometimes to separate economic circuits, and frequently to a combination of the two' [Bremar, 1994, Pp. 5-7]. The author does not deny that 'the use of the concept of the informal sector ... made it possible "to identify one target group always overlooked in planning" - the urban poor - living in slums surrounding metropolises' (p. 124).

With the fragmented nature of the entire labour market, the distinction formal-informal refers to two economic sectors. Each sector has its own structural consistency and dynamics. Informal sector is characterized, for instance, by low capital intensity, intermediate technology, a low level of productivity, limited and usually poor purchasers, preponderance of family labour and ownership, ease of entrance, convenient hours of work, a low level of formal schooling for workers, etc. [Bremar, 1994, Pp. 5-7].

Similarly, the drawbacks of the informal sector comprising small-scale industries and tiny industries, and also the plight of the worker there are well documented, even in official records, where Marx is an anathema. A number of laws

and even international conventions are passed to protect the labour force in such units. The fact that these laws are hardly implemented is often pointed out: Indian small firms have *not* 'generated as many jobs as were hoped for - especially jobs with a living wage and tolerable working conditions - or reduced social inequalities. Many of them exist only to get cheap labour, to evade labour laws and unions, and to take advantage of cheap loans, government assistance and reserved lines of production. The benefits have been siphoned off by rich speculators who were determined to get their share of any official assistance ....' [Holmstrom, 1998, Pp. 10-11].

Yet, the author opts for the original Marxist theory reconstructed with the feminist concepts because he is convinced that 'this concept (the informal sector) does not suffice to explain the sector's production relations, in particular the conditions under which women toil' (p. 130). In spite of planned economies neglecting the urban poor living on the fringes of urban centres, the author's faith in classical Marxist precepts and in the socialist mode of planned economic development is unfaltering. It would be worthwhile to find out how far the author is right in his claims.

The author resorts here to Marx's following explanations in *Capital*:

Explanation (i): 'that labouring conditions under capitalism are not homogeneous, and that it is in capitalism's interest that a part of the working class is employed in home industries where exploitation is particularly severe. ... (Piece wages) lay the foundation of the modern "domestic labour" ... as well as of a hierarchically organized system of exploitation and oppression' (Pp. 124-26). For, the piece-rate system of wages has the prolongation of the working day implicit in it. He further adds that piece wages facilitate subcontracting and reduce the need for supervision, since the quality and intensity of the work are controlled by the form of wage itself.

Explanation (ii): '(I)t is capitalist accumulation itself that constantly produces, and produces in the direct ratio of its own energy and extent, a relatively redundant population of labourers' (p. 360). This floating reserve army is recruited by

capitalist entrepreneurs on an irregular basis. Marx mentions three categories of this army, the latent, the stagnant and the floating, characterized by 'a maximum of working time, and a minimum of wages' (Pp. 344-45).

Explanation (iii): '(A)n owner of a small amount of capital can make a sizable profit, ... provided the turnover time of his capital is short' (p. 109).

The author applies these explanations by Marx to the garment sector in Calcutta as follows:

Marx's analysis of both forms of wages, time wages and piece wages, often existing side by side and of workers being subjected to both kinds of wage regimes for the same work, is applicable to the garment sector. The author points out that '... the garment sector in Calcutta, its male and female workers could equally well be covered by Marx's concept of the industrial reserve army' (p. 125). The peculiarities of such army mentioned by Marx are applicable to the workers in the garment sector. Yet, the author does not provide any evidence to substantiate the further adjunct of this concept, that 'the existence of a mass of irregularly employed workers has a negative effect on the wages paid to (fixed) employees in large companies' (p. 132).

The third explanation of Marx in *Grundrisse* and *Capital* holds good for the *ostagar* (owner of a manufacturing unit) of the garment sector in West Bengal. 'Invariably, ... all *ostagars* re-use their capital within a period of just one week. ... How many steps need to be taken within a week's time? ... While being turned from raw material into *Punjabi* dresses, the cloth travels between no less than five different production places ... During the process, nine different production tasks are performed, .... Given the short turn-over time of the *ostagars*' limited capital, the workers are constantly under pressure to complete their tasks' (Pp. 109-10). Yet, when the author refers to the sub-contractors as 'parasites between the capitalist and the wage labourer' (p. 126), it may not always be true. They may be an indispensable bridgehead between the two. For the workers, not even the male workers, possess the skills to handle such jobs as procurement and distribution of

work, responsibility for timely delivery and, in some cases, sales, payment of wages, keeping records and accounts, banking, tax etc. They are handled by these intermediaries, themselves working long hours and with low profit margins.

There is no doubt that the overwhelming majority of male workers and all the female workers in the garment sector in and around Calcutta are paid by the piece, perform their production tasks at home, and work long hours in order to produce means of subsistence for the owners of the means of production. Thus, their exploitation leads to accumulation of capital. But what is the alternative?

The Marxist analysts, like the Fordist or Taylorist, proffer only one alternative to decentralized production through subcontracting, namely, centralized mass production in large factories. The only distinction is that such large factories are in the public sector under the Marxist regimes. Whether the manufacturing unit is in public sector or private sector, factory work is boring, deskilled and well-paid only for those few who are lucky enough to get it. While discussing the Japanese mode of production in Part 4 of the book, the author points out that the chronometer and conveyor belt assembly line are resented by workers as 'the despotism of the factory system' (p. 296). 'India might move into this kind of production as rich industrial countries move out of it' [Holmstrom, 1998, p. 22]. Other disadvantages of large scale factory production, such as rigidity of production systems to respond to changing market demands, transport to and from the workplace, the time spent on commuting, etc., are ignored by the author. Whatever the plight of the habitat and standard of living of the homeworkers in the garment sector, they have the freedom to carry out their work at their convenience. This enables them to fulfil their familial responsibilities as well.

Besides, it appears, the author is totally unaware of the travails of textile workers in Mumbai, even of those in nationalized mills, when he favours Marxist claims about organized production. Even the experience of the Communist countries does

not point out that the large scale organized sector under socialist regimes is successful in eliminating exploitation.

Moreover, there are certain pertinent facts about the readymade garments sector that need to be taken into account:

(a) The garment sector in West Bengal provides employment to a large number of women 'at least half a million' (p. 107). Indian readymade garments industry is a labour-intensive industry. The share of labour generally accounts for 90 per cent of the total value added [Chatterjee and Rakesh Mohan, 1993, p. M-108]. India has a massive surplus of labour, even skilled labour. Not only this sector, but all unregistered SSI units (non-factory units) provide about 70 per cent of the employment while factory units just 30 per cent [Government of India, 1997, p. 255].

(b) India has an age-old craft tradition. Of the two patterns of readymade garment production in Calcutta, discussed by the author, one - Moheshtola-Santoshpur - has a long tradition of a tailoring profession transmitted by resident families over many generations from pre-British times. He himself points out that even market-oriented garment production was started there '(i)n the 19th century, some 125 years ago' (p. 108). As a result, hardly is there any investment in training or development of skills.

(c) Incidentally, decentralized production need not always involve sweatshops and insecure labour. Enhancement of efficiency and quality as well as innovation in design resulting in economic gain could 'make wage gains and improvements in social conditions feasible' [Holmstrom, 1998, p. 22]. It could, as well safeguard workers' rights and provide adequate standards of social protection. In order to reap the benefits and, simultaneously, to avoid the pitfalls of decentralized production, it can be organized through cooperatives or cluster associations.

(d) Ill-suited governmental policies, based on pre-Independence premises, regulate the Indian garments industry which is almost entirely in the private sector. There is, by law, reservation of

garment manufacturing for the small-scale industrial (SSI) sector. Garment manufacturing units involving investment in plant and machinery beyond a certain limit are required to undertake export obligation without any time-frame. Hence, investment in garment industry is low. These requirements have been liberalized for technology upgradation since 1993 [Government of India, 1997, p. 96], yet not annulled entirely.

(e) And finally, the supply of fabric is limited. For, though the mill sector produces most of the country's yarn output, it produces less than half of its fabric supply. Bulk of the fabric (approximately 70 per cent of the total production) is produced in the decentralized powerloom sector. Analysis of garment sector alone presents an incomplete picture.

It seems that the author does not find these details sufficiently significant to scrutinize and comment.

Another important rudiment the author apparently excludes is that accumulation of capital is an absolute prerequisites for industrial development and building a modern national economy, whether it is a capitalist economy or a socialist one aiming at redistribution of income and assets and increasing the capabilities of the people. Even Marx underlines 'what he called the "positive side of capital", that is, without the big industry, free competition, the world market and the corresponding means of production, there would be no material resources for the emancipation of the proletariat and the creation of the new society' [Chattopadhyay, 1998]. So what are the options available to a Third World country like India?

(i) If international capital flows into a country, it imposes an international division of labour, with the Third World countries providing low-paid sweat labour. In addition, there is the risk of fluidity of foreign direct investment. The export-led growth strategies followed in the South-East Asian countries did lead to rapid economic growth there, yet in 1996 those countries suffered a financial crisis which 'quickly ... deteriorated into an economic and social crisis'

[World Bank, 1998(a)].

(ii) Foreign loans carry the risk of debt trap.

(iii) On the other hand, in the case of decentralized production as in the garment sector in Calcutta, requirement of capital is small: 'the size of capital of most *ostagars* is relatively small' (p. 109).

(iv) Moreover, there is a close overlap between traders and manufacturers, with the former generally providing credit for production. This input of capital is vital for the survival of the garment business, except for a few factory-based ancillary clothing units owned by major textile mills, using power-driven specialized machinery and producing standard garments generally for domestic consumption.

Since the author is here preoccupied with the 'how' of exploitation he never thinks on the lines of whether the necessary investment for development could be brought off without exploitative accumulation, and whether there is any alternate mode of development with just, equitable distribution of *both*, the indispensable burden of investment as well as the fruits of development.

One alternative could be Amartya Sen's normative prescriptions based on fusing of ethical considerations into economic analysis. He is aware: 'Cogency of policy requires a concern with the identification of beneficiaries and *some discrimination*. ... (but) important issues lie elsewhere, to wit, in how far to push the discrimination and where to stop' (emphasis added) [*Economic Times*, (Mumbai Edition), December 8, 1998]. Thus, the crux of the matter is who are targeted for exploitation to accumulate the investment capital.

Feminists argue that 'as in the capitalist countries, the free wage-labourer, the proletarian, the hero from whom the Marxists expected the revolutionary transformation, is ... far too expensive, he works far too little, is not flexible enough and cannot easily be "squeezed" for the generation of more surplus because he is better organized than peasants, and particularly women who are the ones who provide the bulk of the labour force' [Mies 1986]. The feminists point out 'that women and colonies serve as the "unseen

foundation for the entire edifice of industrialism", and that ... constitute a vast mass of "subsistence producers", whose labour is a hidden source of accumulation of capital' (Pp. 257-58).

The author, tacit about the above feminist accusations, tries to prove inconsistent the feminist definition of subsistence production - 'the production of life in the widest sense, the production of *use values* for day-to-day sustenance as well as the production of new life' (p. 277). For, feminists include in this definition women's wage labour, such as that of female agricultural labourers, some of whom are really bonded labourers or permanent farm servants. Their labour is essential for the survival of their families but it also results in a surplus for their employer, the progressive capitalist farmers producing cash crops. Their labour produces, not use values, but commodities for exchange. With the help of Marx who terms the latter as 'necessary labour', the author tries to prove (not at all convincingly) the superiority of Marxist analysis (Pp. 275-80).

#### *Capital Accumulation and 'Housewifization'*

Initially, 'housewifization' referred to the ideal of the domesticated privatized woman. She was supposed to be concerned with love and consumption, was dependent on a male breadwinner. Her whole existence rotated round the husband and children. She was never able to take up any waged employment. This ideal was 'generalized, first in the bourgeois class proper, then among the so-called petty-bourgeois, and finally in the working class or the proletariat' [Mies, 1986]. Just as celibacy was forced on the propertyless people and the working class, similarly, this type of 'housewifization of women was also forced into the working class, ... (with) the objective of ensuring that there were enough (male) workers and soldiers for capital and the state' [Mies, 1986]. A woman was kept engaged all her life in bearing and rearing a large number of children and in looking after their and their father's material comforts.

Claudia von Werlhof's thesis of 'housewifization' from her book, *Women: The Last Colony* (quoted here) is that patriarchal man-woman relations, which confine women to work at home as housewives and mothers, are comparable with the erstwhile exploitative colonial relations. She further contends that the present-day patriarchal man-woman relations are not only limited to home but that they are also located at places of waged work in many units in the informal sector. The ever expanding informal sector curtails the number of free wage workers.

The author refers to this extended denotation of the term housewifization. In its wider significance now acquired, housewifization refers to the 'secluded work spheres' in the informal sector (p. 172) where the conditions of workers (female as well as male) approximate those of the housewife slogging in isolation, the individualized, atomized worker whose labour is not regulated by a wage nor by any labour law (Pp. 126-27). Nor do these homeworkers have any opportunity for forming trade unions and fight for their rights.

That such a sectoral division of labour also turns out to be a sexual division of labour is a fact, focussed particularly after the United Nations Women's Conference in Mexico in 1975. Precisely, such work spheres are made invisible, so that exploitation is feasible either through non-wage relations or by suspending or evading the labour legislation that governs the conditions of work [Mies, 1986]. Further, mainly in such areas, sweat labour and careful nurturing are required and 'the more "nurturing" a job requires, all else equal, the lower the wages paid' [Folbre and Weisskopf, 1998, p. 186].

The author, although aware of the flexibility of the sectoral sexual division of labour,<sup>2</sup> asserts that even if the 'thesis on "housewifization" correctly explains the women garment workers' sociological conditions, it fails to correctly define the economic or production relations under which they work' (p. 127) and that '(w)omen's work can only be accounted for by a Marxist-feminist theory, by a theory which is concerned with both the paid and unpaid forms of exploitation used to

gather profits under modern capitalism' (Pp. 130-31). In reality, the feminist conception of housewifization can be substantiated with facts and figures as follows:

(i) The Census data in India indicates that industries and occupations, where more female workers were found than male in the 1981 Census, are traditionally known sweat labour, secluded work spheres, such as *bidi* manufacture, *charkha* spinning, manufacture of matches, food processing and preserving, nursing, teaching (in nurseries and primary schools), *ayahs*, maids, etc. Interestingly, the share of women in the total number of person-days (man-days) generated under rural wage employment programmes, like Jawahar Rozgar Yojana, was just 30.52 in 1996-97, and female headed households in 1994 were only 9.74 per cent in rural India and 10.57 in urban India [CSO, 1998, Tables 25, 26, 28 and 10].

(ii) Female percentage of labour force has gone down in India from 34 per cent in 1980 to 32 per cent in 1996 while it remained the same at 42 per cent in Bangladesh in both the years; only in Japan it rose from 38 per cent in 1980 to 41 per cent in 1996; total labour force here comprises of all economically active people and 'includes the armed forces, the unemployed, and the first-time job-seekers, but *excludes* homemakers and other unpaid care-givers and *workers in the informal sector*' (emphasis added) [World Bank, 1998(b), Pp. 50-53]. Maybe, the loss of 2 percentage points in female employment in the formal sector of India between 1980-96 has been more than adjusted with a simultaneous increase in employment in the informal sector.

(iii) In Bangladesh, the evidence is still more substantial with 83.3 per cent of women workers, both full-time and part-time, working without pay in an economic enterprise operated by a related person in 1994, while only 6.4 and 5.2 per cent worked as employers or own account workers, and employees, respectively; in Japan 12.4 per cent women workers were unpaid family workers but 75.5 per cent were employees, and only 8.9 per cent were employers or own account workers; besides, the unemployment among the Japanese

women is rising from 2 per cent in 1980, to 2.2 per cent in 1990 and 3.4 in 1996 [World Bank, 1998(b), Pp. 54-57, p. 62]. Unfortunately, comparative data for India is not available.

Besides, how can the author attribute the exploitative accumulation to the piece wage system, when in the next chapter (Chapter 6) he himself speaks of 'Wage Slavery among Women Garment Workers under the Factory System' launched in Bangladesh in 1976 and geared towards exports, under which time wages are paid. '(T)he hallmark of the Bangladeshi garments sector is that all factories are engaged in numerous violations of the Factory Act' (p. 144), particularly of the provisions pertaining to women in the Act, since workers are predominantly women. Exploitative relations thus exist in the organized factory sector too. The conditions of garment workers in West Bengal and Bangladesh are not much different, although the former receive piece-rates while the latter time-rates. The latter uniformly stitch trousers and shirts at sewing machines, and 'are employed in "world market factories". They are the target for exploitation in export-led growth strategies' (p. 134), which are further toughened by the structural adjustment programmes imposed by the Bretton Wood institutions on most of the countries of the Third World.

The author refers to the twofold transition brought about by the switch to mass production of goods for domestic consumption, especially household appliances, after the First World War. This transition relates to (i) capitalist relations began to grow in place of feudal ones, and (ii) simultaneously, began the gradual integration of the 'public economy' with the 'domestic economy' and of the two classes of women, the working class women as factory labour producing such commodities, while middle class women, who were left without domestic servants, as purchasers of such goods. But as the author points out, notwithstanding such twofold transition, women's exploitation has not abated. On the contrary, working women are doubly exploited at

both places, at home as well as at work place. In addition, they run the risk of sexual harassment at the latter place.

Exploitation exists because there is disparity in the bargaining power/strength of the employer and of the employee. What is needed is empowerment of the weaker parties through their personal development, through education, skill-acquisition, improvement in health, betterment of environs, etc. Today many of the consultants - software developers, management and financial advisors, chartered accountants, technology experts - work on piece-rate system of remuneration. They prolong their hours of work to any limit but none would claim that they are exploited. On the other hand, they have the freedom to work according to their convenience. Even the homeworkers in the garment sector in Calcutta are able to combine their household chores with their paid labour, as opposed to the Bangladeshi female workers in garment factories, who have to prepare meals before leaving their huts and again attend to household chores after returning home late at night, in addition to the time used up in commuting to and from the place of work. It is difficult to decide who are more exploited.

One of the reasons for women's low status at home and in socio-political milieu is that they give more importance in life to marriage and children rather than to their participation as a human resource in nation building. Of course, it is a matter of choice for every woman to determine her priorities but how many women are in a position to exercise this choice?

Moreover, no down-to-earth reasons for female workers' exploitation, like jobless husbands, many a times given to vices like drinking and gambling, large families, lack of education or any other training, etc., are mentioned. Nor are any realizable measures for preventing their exploitation are indicated, such as, maternity leave benefit given to women as per law could be reimbursed by the state by levying a suitable tax for the purpose, just as professional tax is collected in Maharashtra for supporting employment

guarantee scheme for the unemployed. If any such cross subsidization is devised, employers will not be saddled with 'any responsibility for the costs of child-bearing and child-rearing' and pregnant women will not be 'ever at risk of losing their jobs, and ... forced to hide the fact of their pregnancy' (p. 152).

#### CAPITAL ACCUMULATION THROUGH JAPANIZATION

In Part 4 of the book, the author critically analyses the current phase of world capitalism which, he states, is Toyotism or Japanization, that is, the Japanese mode of production. Its two central aspects - subcontracting and quality control circles - are compared with the conveyor belt assembly line of Fordism, and the management techniques of Taylorism in vogue in the United States and Western Europe in the early years of the twentieth century. For, 'both Taylorism/Fordism and Japanization are crucially concerned with the effective use and control of human knowledge and behaviour' (p. 303). He is, however, silent about the system used in factories in the erstwhile communist countries which attempted to establish the Marxist conception of a classless society of freely associated members (labourers) under collective control.

Taking into consideration the level of industrial development of Japan, the author rightly compares the Japanese system of subcontracting with the Fordist chronometer and conveyor belt assembly line, and not with the subcontract relations with a chain of parasitic middlemen between the capitalist and the wage labourer in other East Asian countries like India and Bangladesh. In Japan, subcontracting helps 'to do away with the rebelliousness, the spirit of resistance of the working class, ... (with) the physical expulsion of the bulk of the male/female labourers from the factory halls and the splitting up of the collective workers into numerous small, geographically separated units' (p. 317). Thus, trade unions could be completely outmanoeuvred. It is from the entrepreneur's point of view a better alternative of worker-control to chronometer and conveyor belt assembly line. Further, subcontracting entails 'the transfer of

production risks to the manufacturers of components and to the workforce employed by them' (p. 317).

The second aspect of Japanization is the system of 'quality control circles of shopworkers engaged in studying work processes and potential improvements in work methods' (p. 305). Since they ensure self-discipline among the workers and eliminate the need for detailed supervision, they benefit the entrepreneur. The author maintains that entrepreneurs also prefer them to Taylor's management technique of acquiring 'a complete "monopoly" over knowledge, ... all of the traditional knowledge which in the past had been possessed by the workmen. ... (I)ndustrial corporations have abandoned Taylor's insistence on the strict separation between conception and execution, his open advocacy of dehumanized labour' (p. 304). However, the author finds fault also with the quality control circles because 'whereas the quality circles are forced to provide the management with scores of suggestions on how to cut production costs, on how to reduce production errors to the barest minimum, the power to decide, to use the workers' knowledge, remains entirely the management's' (p. 306). It is ironical that the author after avowing his faith in Marxism, should complain that the decision-making power is not equally shared! Taking over the means of production by the state would just result in bureaucrats taking decisions.

Further, the author finds 'contradictions between the ideology and practice of Japanization' (p. 306). He tries to expose such contradictions, of course, by means of Marxist theories - the turn-over time of capital, and prolongation of the hours of work. The former is applied to subcontracting while the latter, to quality control circles.

(i) *Turn-Over Time of Capital and Subcontracting*: 'Turn-over time, as defined by Marx, comprises both the time of actual production of commodities, and the circulation time before, (during) and after production (i.e., the time needed to purchase raw materials and that needed for the sale of the produced goods). ... The owner

of a mass of capital which is four times smaller in size than the capital of another entrepreneur can nevertheless gather as much surplus value as the latter, if the turn-over time of his capital is one-fourth in duration' (p. 358). Capital's urge to limit this time to the minimum is expressed by the Japanese principle of *kanban*, 'meaning the demand that subcontracting companies deliver their components strictly on time so that the ... corporation (in spite of its lean inventories) faces no interruption in its own production process' (p. 360).

(ii) *Prolongation of the Hours of Work and Quality Control Circles*: Ideally, quality control circles represent a form of self-management; in reality, the author maintains, they represent unpaid extension of the labour day, since the quality control 'groups are instructed to convene and discuss problems of production efficiency after the official working time. In general, the labourers are not paid any overtime wage for participating in the groups' (p. 306).

The above commentary on the Japanese mode of production proves how true is Amartya Sen's astute observation that there is no ideal, flawless economy in the world in terms of fulfilling human goals, that every economy has something to be criticised and learnt from, and that every country has skeletons in the cupboard [*Indian Express*, December 27, 1998].

#### *Women and Japanization*

The author believes that Marx's theory of the industrial reserve army 'at least its essential traits, can well be applied to contemporary Japan, to explain the secondary economic position held by women waged labourers' (p. 361). As before, the Marxist theory merely elaborates the subordinate status of female workers as the industrial reserve, but does not answer the question - why women should be predominantly subjected to such position. That issue is addressed by the feminists as follows:

All categories of women workers, young girls employed for their nimble fingers, married women with small children doing work at



piece-rates in their homes, or middle-aged women employed as part-timers, 'are paid low wages, and are easily disposable. Of all these listed categories, that of part-timers appears to be the numerically largest one today' (p. 348). 'As for the age composition of female part-timers, about two-thirds belonged to the age 35 to 53 years' (p. 335).

'The employment of middle-aged, married women as part-timers, who are paid hourly rates and are deprived of supplementary allowances, is only possible because of patriarchy ... because of their forced absence from the labour market throughout the period of their life when they have to bear and rear children' (Pp. 348-49).

'(W)omen's role as part of the labour reserve is conditioned by patriarchy and the sexual division of labour that it prescribes. For, it is women's responsibility for the bearing and rearing of children, the fact that they are excluded from participation in wage labour for a whole period of their lives, which has made it possible for the Japanese state to define middle-aged women as a readily available labour reserve' (p. 362).

The feminists as well as the author apparently discount the fact that it is Mother Nature who has cast on all female species the responsibility of bearing progeny. It is not always the case that women prefer wage labour to child-care. What, in fact, women would really favour is recognition of their contribution to rearing the future generation as well as home-making, and equal participation of the male members of the families in fulfilling these vital obligations.

#### CONCLUSION

In spite of the author's claim of reconstructing Marxist economic concepts with feminist underpinnings in order to throw light on the exploitation of women's labour, the author appears to be more interested in reinstating Marx than in comprehensively addressing to the question of gender inequality. Class relations dominate over gender relations in the analysis because the author believes that the feminist theories,

despite stimulating in perceptual knowledge, fall short in conceptual understanding which, he insists, only Marxist analysis can provide. What is underscored in the book is thus the relevance of Marx in the Third World today and a critique of capitalism.

#### NOTES

1. In India just 32.8 per cent of rural women and 15.5 per cent of urban women participated as the country's work force in 1993-94, work force being defined as persons engaged in any one or more of the gainful activity categories used in the censuses of India, such as agricultural labour, forestry, fishing, plantations, orchards and allied activities, processing, servicing, repairs, household industry, trade, services, etc. [CSO, 1998, Table 20, p. 17]. International data show that females as a percentage of total labour force are just 25, 8 and 38 per cent in India, Bangladesh and Japan, respectively, in 1993, when the *labour force* of a country is defined as 'all those in its *working-age population* (those fifteen to sixty-four years of age) who are employed or seeking employment. It ... excludes *discouraged workers* (those who have given up looking for work) as well as others who are neither working nor seeking work (family members caring for children, ... [World Bank, 1995, Table 29 - Gender Comparisons, Pp. 218-19 and p. viii].

2. Sectoral sexual division of labour refers to the fact that a hierarchical division of labour between women and men operates within specific sectors of a given economy - agricultural, industrial, etc. There is no equal remuneration for equal work. On the contrary, jobs performed by women are uniformly labelled 'non-skilled', whereas those performed by men are classified as 'skilled', even if they are the same or similar jobs.

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Both are country studies of India prepared by World Bank teams in the two years indicated above. While the two have a similar overall review of economic performance since the start of the reform programme in 1991, the two studies critically examine different sectors of the Indian economy regarding challenges posed and solutions considered necessary. The first one concentrates on infrastructure and educational reform while the second dwells at length on the need for a fiscal balance and steps needed to unleash agricultural growth.

By and large, the two studies regard as satisfactory the steps taken, since the structural adjustment process was initiated to free the economy from the comprehensive regulatory framework inherited from previous governments. The reform of the tax system, the dismantling of the numerous restrictions on industry and the encouragement of competition, the considerable deregulation of the financial system and the steps taken to promote foreign trade and investment obviously assisted high growth in three out of the five years of the post-reform period. Having said this, they stress that more needs to be done in maintaining the tempo of reforms if the high growth rates achieved are to be sustained so that India can entertain hopes of taking the bulk of its people from the dire poverty they have had to live in. The details of problems faced and possible solutions are examined in the various sectoral sections.

The prime requirements in any developing country are high growth and an absence of inflation. To achieve this what is needed is a high investment rate and financing of this investment by voluntary savings generated by the economy. While private sector saving has been taking place at a satisfactory rate, it is government saving which has been steadily declining from a level of 4 per cent of Gross Domestic Product (GDP) in the eighties and is currently (1996) zero. This means that government can finance its investment largely through debt which is easily monetised and which then leads to inflationary pressures. Also as debt increases interest charges increase and it becomes all the more difficult to increase government savings. So what is needed is an increase in revenue through a continuation of the process of tax reform, better tax administration, widening of the tax base by taxing agricultural incomes, better pricing of water and power and checking thefts and leakages, and reduction in expenditure through cutting down subsidies through measures such as disinvestment of public enterprises, reduction in staff and greater control over expenditure, but simultaneously targeting the subsidies towards the vulnerable. The key *mantra* is a reduction in the 'fiscal deficit' as early as possible to a level of 3.5 per cent of GDP. If the fiscal deficit is reduced it will be possible to undertake greater investment in infrastructure which is badly needed and provide more resources to vital sectors like primary education and health which contribute greatly, though indirectly, to overall development.

II

Large investment in infrastructure in the coming years is required if agricultural growth is to proceed at a high rate. Public irrigation systems which amounted for 36 per cent of net irrigated area in 1990 are becoming less effective because of lack of repairs and maintenance. This is because the rates at which water is sold are so low that the revenue generated cannot pay for their maintenance. Raising the price of water will be met with strong resistance because of the poor administration of the water delivery system. The

large subsidy and the arbitrariness of the water delivery system encourages a wasteful use of water which has led to increasing salinity in many areas. What is suggested to achieve full cost recovery is higher rates accompanied by better delivery of services and greater participation of users in the operation and maintenance of infrastructure.

In power also situations of mismatch between demand and supply are arising in many states. In 1994, it was estimated that India will need an addition of 140,000 megawatts (MW) of power to the current level of 80,000 MW, in the next 15 years. Here again, the prices at which power is sold to different sections of society are responsible for the State Electricity Boards (SEBs) not being able to generate adequate surpluses to undertake fresh investment. In addition the SEBs are plagued by large scale thefts and substantial transmission losses. What is needed therefore is more investment in generation and transmission, better pricing and elimination of subsidies, and better administration. Privatisation of generation thought of as an alternative to state generation has not made much headway because of two reasons: (i) since the SEBs are not sound financially the would-be private generators want a counter guarantee from the central government that they will pay their dues if the SEBs fail to do so. The central government has declined to do so after giving such guarantees to a few, for fear of attracting large contingent liabilities, and (ii) the alternative of better administration by SEBs and better pricing and diminution of subsidies seems so remote that very few are willing to come forward. Many alternatives which will attract private generators have been considered but nothing fully satisfactory has been found. The main difficulty in this process has been the financial weakness of the SEBs.

Although India has a fair-sized network of roads (128,000 km state highways, 34,000 km national highways and 216,000 km major district roads)

the quality and width of roads are not such as to meet the demands which are made on it. Half the volume of road traffic is concentrated on a relatively small length connecting the main cities and the quality of these two-lane highways is such that speeds are low, congestion is heavy and pollution is unbearable. There is, therefore, an urgent need to convert this portion to four-lane highways of international standards. The rest should be converted to two-lane highways of international quality.

It is argued that the traditional road builder - the Public Works Department (PWD) - is incapable of doing this sufficiently quickly because of its lack of skills regarding the building of modern highways and its manual methods of construction. There is also a resource constraint. So handing over building and maintenance of these highways to private agencies in return for tolls to be collected by them could be one alternative. But tolls would not generate enough revenue because of the low volume of traffic, due to the possibility of using alternative roads, though inconvenient. An alternative would be to collect tolls only on bridges or fly-overs skirting towns on these highways because dodging them through alternative roads would be virtually impossible.

### III

Experience in other developing countries has shown that universal primary education has three short term advantages: (a) it increases productivity; (b) it leads to much better family health and welfare; and (c) it has a great deal of influence on the limitation of numbers. Over the long run the smaller growth of numbers means a saving of expenditure on education and health, and these resources can be devoted to improving their quality and expanding higher education. The improvement in human capital brought about by primary education is essential for enabling individuals to translate market opportunities into reality and for ensuring that increases in economic growth are distributed equitably.

The study asserts that increased primary enrolment has been a significant factor in the growth of the East Asian economies in contrast to Latin America or South Asian countries. It accounted for between 58 and 87 per cent of predicted growth of Japan and Thailand, respectively; physical capital accumulation was the second most important contributing factor, accounting for between 35 and 49 per cent of predicted growth. Not merely enrolment but the quality of education is also equally important.

Although 108 million children were enrolled in 573,000 primary schools in India in 1994, the literacy rate was only 52 per cent in 1991. Compared to the 18 per cent in 1951, this is a substantial improvement. Universal enrolment in India may be achieved by 2000, a decade later than in Indonesia and Malaysia and three decades later than in Korea. And even the current 52 per cent literacy rate compares unfavourably with Korea and Thailand which had literacy rates of 71 and 68 per cent, respectively, in 1960 when those countries began to integrate with the world market.

The effectiveness of even this growth in primary enrolment is reduced by a high drop-out rate. 65 per cent of all boys and 60 per cent of all girls complete the first five year cycle of primary schooling. Completion rates vary enormously between states - 100 per cent for Kerala and 40 per cent in Bihar. Only 35 per cent of those enrolled in Class 1 enrol in Class 8, eight years later. Children from the poorest families and rural girls are most likely to be out of school. Of the 24 million children estimated to be not in school in 1987 - 25 per cent of those between 6-11 years - 60 per cent were girls.

The children who go to school have low learning achievement. Teachers, tools and time for teaching, standards for learning outcomes, and guidelines for curriculum are necessary for raising learning achievement. Factors such as the lack

of a strong foundation in the subject among teachers, teacher absenteeism leading to less instructional time, absence of even modest teaching tools such as text books, libraries, class room instructional material, etc., are responsible for such a situation.

To remedy the situation the government adopted the District Primary Education Programme (DPEP) in 1993. The investment costs of this programme in 300 districts is estimated at approximately \$3.5 billion over the Eighth, Ninth and Tenth Plan periods. Maintaining the value of these investments will need substantially higher resource allocation from the eight states. Since the finances of most states are in a precarious state their ability to finance such a programme depends upon their willingness to undertake the fiscal reform mentioned earlier and the priority they attach to primary education.

Public expenditure on primary education has varied between 1.68 per cent of GDP in 1989-90 to 1.6 per cent in 1993-94. It is not possible to redirect resources to primary education from other education subsectors because the total expenditure on education has fallen from 4.2 per cent of GDP in 1989-90 to 3.9 per cent in 1992-93. The only way, therefore, that more can be spent on education is through raising more revenue, and cutting down expenditure on items like subsidies. At the same time, care should be taken to ensure that more resources do not go towards salaries as at present but for instruction material and infrastructure. Efforts should be directed towards (i) selecting cost effective strategies, (ii) substantially increasing state financing, and (iii) maintaining an effective and efficient central government role over the medium term.

#### IV

As the 1990s began, the study avers that India was experiencing faster agricultural growth that was becoming more evenly spread across states, including rainfed regions. This has contributed to

an unprecedented decline in rural poverty. The improvement in agricultural terms of trade, the large spending on infrastructure, support services and subsidies for fertiliser, credit, water and power for pumping benefited farmers considerably. However, four problems still remained: (1) The fiscal impact of public spending on agriculture and its composition is supportive of neither faster nor more equitable growth; (2) the remaining external trade restrictions on agricultural goods imports and exports may affect agriculturalist profitability; (3) over-regulation of domestic trade and agro-processing industries is proving increasingly costly to the economy; and (4) the rural financial system is not supportive of agriculture and other rural economic activities.

The spending on agriculture is unsustainable because of its impact on central and state finances. India devoted on agriculture in 1994-95 resources equivalent to 28 per cent of agricultural GDP (8 per cent of GDP) which is at least twice as much as that by some East Asian countries. But this does not lead to much higher sectoral performance suggesting poor effectiveness and efficiency. This public expenditure can be classified into productivity growth enhancing, subsidies, and safety net programmes. The first includes expenditure on economic services in agriculture and allied subsectors and on new irrigation investments; the second includes food, fertiliser, credit, water and power subsidies; and the third includes spending on rural development and employment and safety net programmes.

Technology development and dissemination, rural infrastructure, irrigation, and human capital are the major determinants of total factor productivity in Indian agriculture; but that productivity growth has been on a declining trend since the mid-eighties. Total capital formation in agriculture has been declining from a peak of 14 per cent of agricultural GDP in 1979-80 to 8.5 per cent in 1992-93. It seems to have declined further in 1993-94 and 1994-95 which, if continued,

would dampen long term agricultural growth and poverty reduction. By 1994-95, close to 40 per cent of total spending in agriculture was absorbed by subsidies and 22 per cent on safety net programmes. Only 38 per cent was on productivity enhancing expenditure as against more than 60 per cent in 1981-82.

Irrigation related subsidies on water and power accounted for more than half the total agricultural subsidies and these are given by the states. While the centre was partially successful in reducing credit, food and fertiliser subsidies, the states were not able to contain power subsidy. The little success they had with regard to irrigation subsidies led to problems with the quality and reliability of the delivery systems. The composition of subsidies has affected the poorer states more adversely because their weaker financial base makes it difficult to support such subsidies. Also, the fiscal squeeze has fallen disproportionately on productivity enhancing expenditures - capital investment in power, irrigation and human capital.

Some public expenditures are inefficient because of ineffective government delivery systems and lead to costly misallocation of resources. A large part of the fertiliser subsidy went to fertiliser manufacturers and encouraged inefficiency on their part and serious imbalances in nutrient application by farmers. The irrigation subsidy really finances the salary and wage payments of the irrigation department with little accountability for the maintenance and operation of government schemes. At the same time, it distorts cropping patterns by encouraging the cultivation of water intensive crops like sugarcane in water-scarce areas. Also, as there is no proper targeting the cost-effectiveness of input subsidies is considerably reduced.

Public expenditure in agriculture needs to be switched from non-targeted subsidies to growth enhancing and safety net programmes because of

(i) a need to compensate the poor against the consequences of agricultural adjustment; (ii) a need for more investment to meet the growing demand for food, and (iii) the importance of agricultural productivity growth for poverty reduction. It is argued that reinvesting a part of the savings from the removal of subsidies into a combination of growth enhancing expenditure, increased public investment in irrigation and targeted safety net programmes — increased funding of targeted food rations, will accelerate rural growth, raise rural incomes and simultaneously improve income distribution to the benefit of the rural and urban poor.

Rehabilitation and modernisation of investment in irrigation combined with volumetric pricing and institutional changes would provide the basis for efficient water use cost recovery and improved service delivery in canal irrigation. The power subsidy should be eliminated in a phased manner in the medium term, in order to give the farmers and the power industry time to adjust. The cost of power should be raised to the recommended 50 paise per kilowatt hour (kWh) to reduce the subsidy. This would also compel farmers to use ground water more efficiently and in a more sustainable fashion. Simultaneously, legal and regulatory changes would be necessary to delineate groundwater use rights along with realistic enforcement mechanisms.

The fertiliser subsidy should be eliminated in a phased manner but a compensating arrangement targeting poor farmers needs to be put in place simultaneously. A fixed fertiliser allowance targeted to each poor farming household would compensate it for its income loss. This could be done through a fertiliser stamp programme. Such an elimination would lead to better fertiliser use and more labour use as it will encourage the use of manure. The diversion of manure to farms can be made possible by subsidising kerosene to poor households as an alternative fuel for cooking.

Lastly, improvements in agricultural research and extension are needed to provide a large boost to productivity. The dense and strong capacity for technology development and dissemination built up earlier and eroded because of inadequate policy support needs to be activated again.

It is also argued that (a) lower protection of the manufacturing sector, (b) extension of trade liberalisation to additional crops, and (c) deregulation of domestic agricultural markets and agro-processing, would improve price incentives to the agricultural sector and lead to faster agricultural growth. This, in turn, would lead to a rise in rural wages. It is suggested that domestic markets need to be allowed to operate more freely to support a more effective open trade policy. However, the urban and rural poor need to be protected from higher food prices resulting from this through a better access to subsidised food and nutrition programmes which are cost-effective. Since the public distribution system (PDS) is not very effective in reaching the poor, its reform is important. Additionally, alternative transfer and targeting mechanisms, such as food stamps through existing health systems and nutrition programmes and/or through Panchayati Raj institutions may be tried. Greater deregulation of sugar, oilseeds and cotton markets is also suggested to achieve technological gains in processing and to compete more effectively in world markets.

The rural financial system also needs to be reformed if it is to support agriculture and other rural activities. Small farmers have little access to credit and long term credit is highly concentrated among large farmers. The rural financial system has three main weaknesses: (a) low autonomy of rural financial institutions emanating from state ownership, micro regulation and measurement of performance based on the achievement of credit targets rather than self-sustainability; (b) the relatively high cost associated with centrally planned credit and

application of concessional lending rates; and (c) the low eventual recovery rate on loans. The system can be improved by adopting, *inter alia*, the following measures: deregulating lending rates further, relaxing credit guidelines/schemes and restrictions, granting greater autonomy to rural financial institutions (RFIs) and improving legal and other arrangements for loan recovery.

v

The two studies cover between themselves the more problematic aspect of the Indian economy and propose solutions to them. Although the analysis is similar to what appears in government documents like the *Economic Survey* and the Reserve Bank of India (RBI) *Annual Report*, the coverage is more, exhaustive and, what is more interesting, statistical data are presented in a refreshingly different fashion. This plus the boxes where different problems are pinpointed make for better focussed reading.

Several economists have questioned the Bank's insistence that the fiscal deficit should be reduced. Since what is needed is an increase in government saving what should be reduced is the revenue deficit. Reducing the fiscal deficit would, on the other hand, have the undesirable consequence of reducing development expenditure financed by borrowing and not exercising any pressure on the government to reduce the revenue deficit. If the investment financed by borrowing has a multiplier effect it will generate the ability to service the debt. This could be countered as follows: already debt servicing eats up 60 per cent of revenues and, if the income multiplier is not large and quick, debt service will cast a further burden on the revenue budget. Secondly, if pressure to minimise borrowing is kept up, it will perhaps exercise pressure on the authorities to raise more revenue and reduce expenditure. Freedom to borrow more may take away this pressure.

Government has not been able to keep the fiscal deficit below 6 per cent of GDP though in each budget speech the Finance Minister promises to do so. The reason for this failure is simple. As the present Finance Minister recently accepted, expenditures based on populism prevent a reduction in the revenue deficit and, since development expenditure has to be undertaken, reliance on debt finance is unavoidable and along with it a failure to contain the fiscal deficit. A fractured party structure makes it difficult to prune expenditure because each member of a coalition government looks only to securing more resources for its pet programmes in order to enlarge its support base. Worrying about the overall picture is antithetical to its existence and expansion in a situation, where all other parties have the same objective.

Similarly, everyone knows that if tariffs had been properly aligned the financial position of the SEBs would not have been so precarious and they themselves would have been able to contribute to additional generating capacity, in addition to inspiring greater confidence in private investors. This was not done because of a desire to please the farm lobby and gain their votes. It is difficult to think of raising rural power tariff to 50 paise per unit as suggested when Punjab now gives power free to farmers and the Shiv Sena has suggested that the same may be done in Maharashtra. For the same reason, it is difficult to envisage that water rates will be raised in Maharashtra when political and economic power has been developed in Maharashtra based on sugarcane and sugar, although so many from V.M. Dandekar onwards have argued that in a water scarce economy like Maharashtra, irrigation should have been devoted to less water intensive crops. In the present state of dominance of the small parties and coalition politics, the desire to obtain votes would prevent anyone from taking steps which would take away concessions already given, howsoever disastrous their consequences may be for the overall functioning of the economy



and its further growth. Naturally the World Bank cannot be expected to comment on the political situation in the country!

While the suggestions made to make primary education universal should be vigorously implemented, one cannot help noticing that the commitment to these programmes on the part of politicians is not particularly high. This seems to be a result of the caste system. With Independence, it was realised by the higher castes that education, higher education in particular, was the key to secure positions in the bureaucracy and the professions. Hence a large volume of resources - both governmental and non-governmental - went into setting up and running institutions of higher learning. Since the bulk of those needing primary education were the poor and those belonging to backward and Scheduled Castes and Scheduled Tribes, the leadership in the higher castes did nothing more than set up a framework without worrying too much as to how it works. So not much change is likely to take place unless the denied people themselves demand more and better education. A rise in political awareness among these groups is likely to stimulate interest among politicians and enhance their commitment and thus go a long way in fructifying bureaucratic efforts to promote universal primary education.

While the general prescription that Indian agriculture should be a part of the global system is acceptable, there is need to make this globalisation process a gradual one for two reasons: (i) the ability of the system to adjust to a new environment is limited because of a long history of protection so that the promised increase in welfare at the end of the process may cause tremendous transitional distress; (ii) although a safety net programme is always suggested to take care of such distress, the administration's handling of such programmes in the past does not inspire much confidence that it will be very different in the future. Thus, the suggestion that free imports of sugar should be allowed so that

the consumer benefits, and technology upgradation of the industry takes place, does not seem to take much into account the problems the small farmers of sugar cane will face. There is no doubt that the sugar industry in Maharashtra is full of undesirable features because of long term protection. Competition from cheaper imported sugar is one way of doing away with them. But the process must be undertaken in such a way that the small farmer does not bear the burden of the reform of the industry.

Another aspect which comes through the studies is the sheer inefficiency of the system. The SEBs are incapable of checking theft of power; the irrigation authorities function with no responsibility for repair and maintenance of irrigation works; the PDS has not been able to reach the very poor even to this day; bulk of the money made available for primary education goes in salaries and yet teacher absenteeism is substantial; rich farmers manage to corner most of the benefits of the power, water and fertiliser subsidy; and so on. This point is being emphasised as many of the market oriented solutions proposed require compensation for the poor against their adverse consequences through a safety net. Against this background can one entertain a reasonable hope that these safety nets will work in the manner intended?

Corruption amongst politicians and the bureaucracy which is on the rise is another factor which comes in the way of adopting a free economic regime. Restrictions mean power and gain, and, therefore, there would be great resistance in giving them up even though their elimination would be beneficial for society as a whole. Also because of this, allocations made for various programmes do not achieve the objective. The 'fodder scam' and the failure to have universal primary education in spite of increasing allocations are instances in point. The road to economic hell is paved with intentions to do good to the poor. But as the numerous examples in the

studies show the poor are always left behind. Our legal system is such that the corrupt can rarely be brought to book if they are powerful.

Notwithstanding all the doubts mentioned above, India has no alternative but to pursue growth and equity along the lines suggested by Indian policy advisers and outside observers such as these. Not to do so would be to invite the tearing apart of Indian society by the growing numbers of the poor and deprived. It is to be earnestly hoped that the fractured political system will realise this in time and act.

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Mathur Kuldeep (Ed.), *Development Policy and Administration, Readings in Indian Government and Politics Series, No. 1*, Sage Publications, 1996, New Delhi, Pp. 306, Price: Rs 325/-.

According to its preface, this book is one of a series in Readings in Indian Government and Politics. It contains 12 articles by various authors. The 'Introduction' by Kuldeep Mathur itself indicates that the discussion is about the 'failure of the planned strategy of development' (p. 13) and the resulting 'concern for administrative reform'; that during earlier studies, 'a vast amount of literature was generated' (p. 14) but that the 'scholarly contributions on the subject were not very helpful in making reform activity productive' (p. 15); rather, '(w)hat began to be questioned .... was the nature of this knowledge and the framework used to generate it' (p. 15). According to Mathur what was wrong was that the scholarly studies laid emphasis solely on the development of professional skills and techniques, ignoring that '(s)ocial and political forces have to be included as determinants of administrative performance' (p. 15); that with the realisation of the strength of these political and

social forces and the actual failures of interventionist states the world over, the ability of public administration to engender development began to be doubted resulting in a move towards liberalisation. Mathur therefore calls for a reorientation of the studies in public administration so that they are 'embedded in the wider context of society, state and public policy' (p. 19).

The articles included in this book are obviously intended to reflect this reorientation. Let us see what these other articles have to say. We will then try to find out what light they throw on the question of administrative reforms.

Ajit Mozoomdar, who has worked as a Secretary in the Ministry of Finance and Secretary, Planning Commission, finds that the developments upto the early eighties 'tended to confirm the planners' confidence in the correctness of the basic thrusts of Indian investment planning. What went wrong at this stage has not been stated. Mozoomdar only says that 'among the main issues facing the planners in the eighties were that the number of people below the poverty line remained at an unacceptably high level, the growth of agriculture, especially foodgrains output was apparently leveling off; and sections of Indian industry.....were facing technological obsolescence' (Pp. 46-47). It was at this stage that a demand for policy changes gained influential adherents in the government and there came a steady decline in the commitment to development planning (p. 79). In fact, in his concluding remarks, Mozoomdar says, 'the infirmities of Indian development planning have arisen less from the deficiencies in the planning system than from a diminishing national consensus on development goals and a decline on the commitment of governments at the centre and in the states to sustain the development process' (p. 83). He wonders whether this decline could be reversed by a shift in the balance of political forces, in which case 'it

should not be beyond the capacity of a future Planning Commission to build a new consensus' ..... and be more successful!

Tushar Shah examines the situation regarding agriculture and rural development and makes the obvious remark that agricultural growth, though impressive, is not enough for the fast growing population. The reason of the relatively slow development is said to be tardy land reforms. He argues against the state playing a managerial role in rural development and says that better results can be obtained if those, whose interests are at stake in the rural economy, are encouraged and allowed to run their own institutions. He cites the success attained by independent cooperatives who developed the sugar industry in Gujarat and Maharashtra, the dairy industry in Gujarat, the edible oil front adequately and cheaply managed by the National Dairy Development Board (NDDB), egg production being well managed by National Egg Coordination Committee (NECC) and even irrigation water being marketed on a large scale in Western India. Such examples, he says, can be replicated if the state is subtle enough to foster various institutions and yet not dominate them.

Ishwar Dayal, like Ajit Mozoomdar, finds that the Planning Commission is weak in policy formulation. His explanation of this weakness is however different from that of Mozoomdar's. While he considers that one of the major strengths of the policy making process in India is the vast consultation and involvement of experts, (p. 128), he finds the Planning Commission to be too vast and segmented a body, with its dominant style of policy making being the appointment of committees or commissions (Pp. 140-42), which have a tendency towards compromise and accommodation rather than finding radical solutions (p. 128). Dayal also finds the various ministries fragmented into various sections. He, therefore, recommends the formation of Policy

Analysis Clusters, attached to respective ministers and secretaries to perform an integrative function (p. 135).

Kuldeep Mathur and James W. Bjorkman examine the role actually played by the Cabinet Secretariat and the Prime Minister's Office (PMO) in the planning process. Theoretically, they recognise that 'the PMO offers a prime minister an opportunity to obtain professional advice elsewhere than from normal government sources only.' They however agree with another author that the PMO has earned a bad name because of the injudicious use of its power (p. 153).

David Potter, likewise, examines the actual relationship of the various prime ministers with the Indian bureaucracy. His main argument is that Indian bureaucracy has carried on the Indian Civil Service (ICS) tradition, which is 'inconsistent with India's federal democracy' (p. 157) and that while even Nehru wanted it to be changed, neither he nor the later prime ministers did anything to change it. Referring to an important recommendation of the Administrative Reforms Commission of 1969 that specialists should become increasingly important in policy making and that the doors of senior management should be open to all sectors of the civil service (p. 168), he regrets that 'the IAS (Indian Administrative Service) made sure that they dominated these two organizations (set up for implementing these recommendations..... and) ensured the survival of the ICS tradition' (p. 175). Potter refers to the criticism of the Indian Constitution itself that it 'has the facade of a democratic formulation but its interior design reflects imperial hauteur' (p. 157). He has narrated how the various prime ministers concentrated power in their hands and used the IAS for that purpose. In all this narration, Potter does not discuss how this administration has affected the development policy of India or hampered its execution. He only expresses the

hope that under the pressure of non-IAS personnel and the forces of democracy, the ICS/IAS tradition will crumble.

Kuldeep Mathur's article on 'Designing Poverty Alleviation Programmes' examines the political roots of their design. He finds that growth programmes initiated earlier through Ford Foundation's assistance had not solved the problem of rural poverty, due to the unwillingness of the rulers to tackle the inequitable land distribution. Poverty alleviation programmes were conceived in this context and were welcomed because they obviated the necessity of tackling the question of land distribution and yet showed a way of political appeasement of the rural population. Mathur finds that the failure of these programmes was due to it being planned centrally without taking into consideration the differences in the local contexts. Mathur says that the remedy is to provide greater flexibility to Integrated Rural Development Programme (IRDP) at various levels of planning and implementation (p. 194).

George Mathew, while writing about Panchayati Raj in India, traces its history, from the ideas of Mahatma Gandhi, the opposition of Ambedkar to the then existing village panchayats because of their being caste-ridden, and the compromise in the shape of including the establishment of village panchayats in the Directive Principles of State Policy and eventually, the passing of the seventy-third amendment to the Constitution whereby Panchayati Raj has been made the third tier of the government. While this legislation has been criticised on the grounds that it has imposed a uniform system all over India, and thus denied local experimentation and developments, Mathew hopes that in due time 'the country will ... witness a full-fledged grassroots-level democracy and a genuine federal structure' (p. 223).

Neil Webster examines the development of Panchayati Raj (PR) in West Bengal. Right at the beginning he raises the question whether the strengthening of the PR in West Bengal served more the people or the party in power, for, while mobilising the people for PR and for agrarian reforms, the party saw to it that its cadres got into positions of power at every level. He however finds that Panchayati Raj institutions have been made quite strong in West Bengal and that there is a 'clear improvement in development work under the new *gram panchayats*' and that they are 'bringing about a significant material improvement' (p. 253 and p. 254).

Nirmal Mukarji, who has served as the Union Cabinet Secretary, pays more attention to the governance of districts. He shows that with the post-Independence march towards centralisation, the district administration has been the worst sufferer. In the British days while the overall government was centralised, the district officer had a good deal of freedom and initiative. In the post-Independence centralisation, he has lost all that freedom and initiative. Mukarji feels that for the purpose of good administration and better participation by the people, we must make districts another level of self-government through elected bodies which will have control over the district bureaucracy. Mukarji puts forward this suggestion only as a starting concept, the detailed content of which could be decided after a full and open debate. He himself has tried to answer some constitutional questions which arise from this proposal.

D.L. Sheth and Harsh Sethi survey the studies conducted on the non-governmental organisations (NGOs) section in India. They trace four phases of development in this sector. The first phase was of social reformers, like Raja Ram Mohan Roy, Mahatma Phule, Maharshi Karve, etc. The second phase was the Gandhian movement, which focused on reorganising people's own resources for their material and spiritual well-being. The third phase was the mobilisation and organisational activities of the Communist

and Socialist parties for whom the central issue was the exploitation of the poor. The current phase, the authors find, is quite nebulous. While, ideologically, NGOs are seen by some as maintaining the autonomy of individuals and of communities from the government, the NGOs themselves are moving closer to the state, and depending on government assistance and collaboration.

Such are the reflections of the various authors on the subject of public administration and its linkages with political and social forces. The authors are people of vast administrative experience and scholarship. They give us a good insight into India's planning system, the policy making process, the changes which this system and processes have undergone during the last several decades and, finally, the present state of affairs. However, since this book opens with a concern for administrative reforms we must examine what reforms have been suggested.

The authors have not suggested much in the way of administrative reforms. Ajit Mozoomdar hopes for a revival of the commitment to development planning before the Planning Commission can work effectively. George Mathew hopes for a gradual improvement in the Panchayati Raj system. A good deal of discussion outside the scope of administrative reforms.

Reforms call for the operationalisation of our knowledge. While designing the operational part, various sectors of the polity have to be considered separately. What we can do to the cultural and economic aspects of the existing social structures, what we can do to the political forces and, lastly, what we can do to the administrative structures and their functioning will have to be determined separately. Though all these factors will be changing the society, all of them do not come under the rubric of administrative reforms.

Taking the cultural aspects first, an engineer once recounted how the first blow to the caste system in India was delivered by the railways. He said that when the railway was first introduced in India between Mumbai and Thane, the local people appealed to the railway administration to provide separate passenger accommodation for separate castes. The railways refused and people of all castes were compelled to travel in the same compartments. The action of the railways was not part of any administrative reforms.

Another area in the socio-cultural life of the society is the empowerment of women. While legislation for reservation for women in different fields can itself be looked upon as an administrative reform, the forces which hamper that legislation cannot be influenced through administrative reforms.

Similarly, the wide consensus which existed at the commencement of Independence on the policy of government-led development, and the equally wide consensus which exists today on the need for liberalisation, cannot be brought under the head of administrative reforms. That consensus was part of the intellectual climate of the times. As Mathur notes, the intelligentsia in the early years of Independence was under the influence of that climate. It has come to sing a different tune only as a result of hindsight. It is not only the Indian intelligentsia that has been under the influence of the intellectual climate of their age. While examining the *Political Ideas in Modern Britain*, Rodney Barker argues that the intelligentsia of the whole of the industrialised world was, from around 1880 to around 1989, convinced that the state had inevitably come to play a dominant role in a nation's life; further that this climate has radically changed after 1989, following the collapse of the communist regimes after 1989. He has then quoted Freedman as saying that 'at the very least, the mental climate of an age defines and constrains the options open to the politician' [Barker, 1997].

Politicians are also circumscribed by the social milieu from which they come up. They have also

a limitation in that they cannot afford the luxury of waiting for the results of a scholarly analysis of the problem in hand. Even in our individual lives, to quote R.L. Stevenson, the nineteenth century writer, 'we theorise with a pistol to our head' - the pistol of pressing circumstances. The politician has also to take decisions with a pistol to his head.

Political forces also operate independently of public administration. One can change electoral laws, one can change the structures of political institutions, as part of administrative reforms. But within the parameters of these laws and institutions, politics will always have an autonomy of its own. When we come to the position of the Prime Minister, in particular, that position is beyond the scope of administrative reforms, simply because it is there that all administrative power is centred. He gets his power through a political mandate and not through any administrative arrangement. It is he who lays down the policy of the government. Nehru made this amply clear when he was replying in the Lok Sabha to a statement made by C.D. Deshmukh on the reasons for his resignation from the union cabinet. One of Deshmukh's complaints was that Nehru had not consulted the relevant committee of the cabinet while deciding against the creation of a separate Maharashtra state. Nehru's reply on this particular point was clear-cut. He said that he knew very well the position of Prime Minister in a parliamentary system of government, that the Prime Minister laid down the policy, that he was not bound by the advice of any committee and that if a Minister did not agree with that policy, he had to go, and that was that. The present book contains many observations about the omissions of several Prime Ministers - Nehru not doing anything to change the ICS tradition (Pp. 164-67), because '(w)hether or not the ICS survived was probably less important to Nehru at that time than other aims like achieving political independence and becoming Prime Minister' (p. 173), Indira Gandhi asking for political loyalty from the bureaucracy (p. 168), Rajiv Gandhi being rude

and arrogant with some bureaucrats (p. 171), several prime ministers keeping too many portfolios with themselves (p. 150), etc.

Whatever the truth of these perceived ills, their remedy lies in the political sphere. Administrative reforms can reform many things but they cannot reform a prime minister. Moreover, what does a political leader do if he wants to wriggle out the political/ideological climate of his times? He will have to take initiative by using resources from outside the framework of bureaucracy and the academia. Whether he fails or succeeds is another matter.

That also makes the Prime Minister's Office out of bounds for administrative reforms. Each prime minister will have different needs and different styles of functioning. The PMO under each prime minister has to have a different character. The only thing that can be done is to develop conventions that will influence the relations between the prime minister and his cabinet, and between the political executive and the bureaucracy. Such conventions can develop only from within the administration, through pressures and counterpressures.

We come now to the next lower level of policy formulation and implementation. Much has been said about the weaknesses of the Planning Commission in policy formulation. What exactly the authors mean by policy formulation has not been made clear. The goals of India's planning have been very clear. The goal is to increase the production of goods and to bring about some correction in the grossly unequal distribution of income, region-wise as well as population-wise. As regards the first goal, this reviewer is reminded what a British social activist wrote more than twenty-five years ago. He said that poor people have needs, which are fairly well-known, while the rich people seek choices which need to be ascertained through a consultation process and, therefore, planning for the needs should not be a complicated matter. If this view is correct, the Planning Commission's job becomes that of

preparing a model in which the physical goals of output are matched with the material, financial and managerial resources. But Ishwar Dayal finds the Planning Commission too flabby and segmented for this purpose and suggests the formation of policy planning clusters attached to each ministry (Cabinet Ministers' Offices, like the PMO?). The exact composition of these clusters, their mode of working, and how do they differ from the existing integrative and consultative machinery do not become clear from Dayal's article. Moreover, out of the three topics suggested for a study by these clusters (p. 134) two are regarding the linkages of development activity to the values and social relationships of the societies. They appear to be too sophisticated for Indian conditions. The third one, that of an understanding between the management and the local population, though important for the success of development administration, is common to all the departments and need not be studied separately by several Policy Analysis Clusters.

The type of studies suggested by Dayal are perhaps more relevant to the Western societies which have achieved a high degree of material development and are now concerned with social problems like how to break down monolithic formations of society built up under the present capitalist/industrial system and to have smaller formations in which an individual can feel more at home and able to take his own initiatives, as in the olden days [See Cooke, 1990].

Through all these scholarly discussions, only three specific changes have been advocated in the administrative set up: 1) throwing open higher administrative posts to experts and other non-IAS people, 2) making the district a separate tier in the constitutional scheme, and 3) more scope to be given to panchayati raj institutions and market organisations. The first suggestion, made almost thirty years ago by the Administrative Reforms Commission certainly needs to be debated afresh

and followed up, but it will need a strong government at the centre, which seems unlikely for some years to come. As regards the second suggestion, the time is not ripe even for starting a debate on it. It has taken 100 years, as Mathew points out (p. 220), for the panchayati raj to travel from the conception stage to the stage of constitutional reality. It will be premature to think of anything that will de-stabilise it. As for the third suggestion, it is not a matter for formal administrative reforms but, again as Mathew points out, will require a combination of political will, people's awareness and the building of healthy conventions and traditions.

What has unfortunately been forgotten in these scholarly discussions is the down-to-earth question of improving the existing administrative structures and the professional skills and attitudes of the administrators. This reviewer's experience as a public servant and as a citizen is that the governmental and public sector bureaucracy in India is quite deficient in professional skills and attitudes. The higher echelons of bureaucracy are drawn from the intellectually enlightened people but the bulk is drawn from ordinary people, who do not have a proper comprehension of the policies of the government and even the rules framed. Rajiv Gandhi once said that India has a large pool of engineers and scientific personnel but doesn't have good plumbers. It would be worthwhile paying some attention to the administrative plumbers in India.

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Dasgupta, Biplab, *Structural Adjustment, Global Trade and the New Political Economy of Development*, Vistaar Publication, New Delhi, 1998, Pp. 434, Rs 450.

While examining the post-1991 developments, in the context of introduction of structural adjustment in Indian economy in July 1991, the author came to realize that 'an understanding of what structural adjustment can or cannot do to India would not be complete without a careful examination of the global experience since 1980 when it was first introduced' (p. 11). This is what Dasgupta has tried to do in this book under review.

The book contains eight-chapters, beginning with the introduction in Chapter I and ending with conclusions derived from the study in chapter eight. The last portion of the book covers Epilogue, References and select Bibliography, Subject and Author indices. The book is thus quite well organised, going by the contents.

The first chapter, viz., 'Introduction', gives the broad ideas about what is contained in each of the chapters that follow. Chapter two begins with an 'outline of the main ideas of the New Political Economy (NPE), that provides the theoretical underpinning to the Structural Adjustment Programmes (SAP) of the World Bank' (p. 19). The theoretical foundation of SAP rests on the vital premise floated by NPE that an individual is rational when 'choices are made in accordance with the perceived self-interest of an individual' (p. 20). The basic question raised by NPE and dealt with by the author is 'whether such pursuit of self-interest by individuals and interest groups operating in an economy, with conflicting aims and with unequal access to decision-makers, brings about a desirable optimum allocation of resources for the country as a whole' (p. 21). The author identified what seems to be the most glaring paradoxical conclusion offered by the NPE that to be efficient (in the sense of optimal

allocation of resources) and 'for economic liberalism to work, a country needs its political obverse, authoritarianism' (p. 379). As opposed to the powerful benevolent role of the state in reconstruction and development of any economy recognised during the three decades of the post-Second World War period, the 1980s under NPE ideology came to declare that 'the state can do nothing right' (p. 31). NPE, however, does not take, in view of the author who has quoted a number of authorities on this question in chapter two, 'the state as a neutral or a benevolent institution' (p. 30). The reason why NPE argues in favour of an authoritarian regime is while '(a) democratic regime exposed to public criticism and subjected to voting is unlikely to succeed in such a political environment, ... an autocratic regime can have the capacity to ride over those difficult years' (p. 33). The author has contested the NPE assumption that self-interest is the sole determinant of human behaviour. The NPE theory, in view of the author, is inconsistent also, as the theory for its praxis requires 'an illiberal, authoritarian political structure - a ruling party (or leader) who can rise above interest groups, make decisions and impose them on the rest of the society, and sustain unpopular but desirable policies ...' (p. 34). To be brief, the author found NPE as a theory which is self-contradictory and ahistorical.

Firstly, 'the NPE is not consistent when it places high hopes on a high quality, objective and impartial bureaucratic and technocratic elite for initiating and sustaining structural reform' (p. 42); Second, there is 'ambiguity in the NPE literature as to the question whether the bureaucracy and the state should be neutral between various interest groups or should throw their weight behind the potential beneficiaries of reform in order to make the reform politically sustainable' (p. 42); Third, there is no reason why the political-administrative elite should abandon administrative parameters that protect their 'self-interest', in favour of NPE propagated



execution of market forces. What the author may have tried to reveal here is an inconsistency between free play of market forces and prevailing institutional system that carries forward the interests of some privileged groups in society. To quote the author in the concluding portion of the book, the 'adoption of self-interest (by NPE) as the motivating force for human action stands in contrast with its own view that it is possible to find a body of bureaucrats that will rise above self-interest and rent-seeking groups and would do what is good for the country' (p. 379). The author is very critical of the NPE view which claims that an authoritarian regime can remain insulated from interest groups and coalitions that seek to increase their share in national wealth. In the presence of such interest groups and distributional coalitions, the market can hardly work autonomously. The author thus comes to a specific ideological conclusion that 'the political capacity to carry out adjustment depends on the ability (of the state) to extract human and material resources from society ... and the credibility of political and economic institutions - all of which would be easier to carry out in a democratic environment' (p. 46).

The author has argued in chapter two that 'the New Political Economy of development is internally inconsistent, ahistorical, is oriented towards justifying market-centered economic policies under authoritarian regimes, is dependent on the rich world institutions for its success and ignores the importance of institutional factors in the development process' (p. 63). The NPE theory misses, in view of the author, the point that even an autocratic regime which happens to be the pillar of execution of NPE principles in national interest, requires a balance of interest groups, when exercise of self-interest is the accepted rationality in the society. While being critical in examining NPE ideology, the author does not offer the argument of 'unbridled state control' (p. 65). The author was perhaps in a hurry at the end of this chapter when he introduced the example

of India's economy by saying that 'In India's case, the era of sleaze and scam largely coincides with increasing liberalisation since the mid-1980s and the introduction of structural adjustment, dismantling of controls, privatisation, integration with the global economy, and the entry of the MNCs (Multi-national Corporations) in the economy' (p. 65). The author however is aware of the problems of citing the Indian experience in haste because he agrees that 'this subject (India) merits a separate, comprehensive book' (p. 317).

While in chapter two the author offers the theoretical background of structural adjustment in terms of NPE, in chapter three the author examines the structural adjustment package itself. The author has examined here the evolution of structural adjustment and the change in its character during the 1980s. As observed by the author, 'the World Bank and IMF (International Monetary Fund) the two BWIs (Bretton Woods Institutions) ... have been instrumental in the formulation and monitoring of the implementation of this policy package at the global level' (p. 67). These agencies (institutions) for sponsoring, financing and monitoring structural adjustment are controlled by the top seven industrialised countries (G-7) in terms of voting rights. The author rightly brings for discussion the question whether these agencies under the leadership of G-7 are guided by an altruistic motive or are guided by self-interest when they decide to introduce and implement SAP (Pp. 67, 380). As opposed to what Keynes suggested in the original proposals in 1942 before the BWIs took birth, the twins came to affect the economic life of the post-Second War Third World, although the development of the Less Developed Countries (LDCs) was not on their original agenda (Pp. 69, 72). Since 1975, the last year for any rich country to go to IMF for loans, 'IMF activities have remained exclusively confined to the LDCs' (p. 71). The World Bank too, now operates, exclusively with the LDCs (p. 71). In fact, 'while their global role has diminished with the dissolution of

the gold standard and the emergence of a well-integrated global capital market, the importance of the twins has grown more than proportionately in the economic life of the LDCs' (p. 72).

Following accumulation of petro-dollars by the Organisation of Petroleum Exporting Countries (OPEC) during the 1970s with the international banking system managed by G-7, particularly international banks were flush with funds while the oil-importing LDCs faced severe balance of payments crisis and were in need of loans (p. 79). As observed and opined by the author, '(t)he LDCs ... preferred this source of borrowing: unlike IMF, these banks asked few questions and were quick with their paperwork' (p. 80). The author then goes on to examine 'how far and to what extent the adjustment package had been introduced to rescue the international banking system from bankruptcy and/or to find markets for the MNCs of US origin in order to rectify the massive balance of trade deficit of the United States (US)' (p. 380). On this point, the author again reminds us: 'Initially, in the late 1970s, the idea of "structural adjustment" was not meant for the LDCs at all. The objective was to restructure the economy of the Organisation for Economic Cooperation and Development (OECD) countries, ... following oil crises, the emergence of huge deficits in the balance of payments of the US ...' (p. 82). With respect to the debt crisis in the 1980s, the 'official' explanation for giving (loan) support for structural adjustment in LDCs goes in terms of rescuing the debtor countries, while the informal explanation goes in terms of the concern of the BWIs for saving the global private banking system from bankruptcy (p. 82). Reminds the author: 'Between 1984 and 1991, the net transfer out of the LDCs amounted to \$ 20 billion per year. IMF net lending was negative during most of the 1980s' (p. 85). It seems ironical that 'the countries that have been the most subservient to the World Bank and IMF, those of Sub-Saharan Africa, seem to have performed the worst ...' (Pp. 134-35). The SAP expects the

LDCs to 'adjust' to the world economy, i.e., to adjust to the Developed Market Economies (DMEs). The SAP 'blames the governments in the LDCs for all their economic ills, but fails to take into account the real "structural" factors that inhibit their exports, a structure that has been created by the rich countries themselves' (p. 136). The author thus is very clear and bold in his ideological disposition backed by a history of development of the globe which he has competently captured in chapter three.

The history of development of countries as geographic boundaries and as analytical categories in chapter three is further unfolded by an examination of the role of world trade institutions in chapter four. What the author has shown here is 'that the World Bank, IMF and WTO (World Trade Organisation), the holy trinity of the contemporary world economy, share a common economic philosophy on trade issues' (p. 203). The philosophy is that of a competitive market 'where prices are determined by forces of demand and supply' (p. 203). Contrary to the NPE philosophy, the author opines that 'the prices ruling in the world market are not objective or rational, and cannot form the basis for policy decisions in the LDCs' (p. 139). The author reminds: 'The scarcity value of oil was not reflected in the prices ruling from the late 1940s to 1973. The drastic revision in oil prices, beginning with a fourfold increase in 1973, came about not by way of the operation of market forces but by the determined cartel action of oil producing countries' (Pp. 385-86). Also 'the transfer prices of MNCs have no bearing on the demand for or the supply of a resource by one of its affiliates, and are usually determined by their headquarters with the objective of minimising the tax burden' (p. 385). The author concludes that 'global prices do not usually emerge from a free interaction of market forces of demand and supply' (p. 385). If this is so, then 'world trade is far from free and competitive and the prices ruling in the world market are trade-distorting, and therefore, cannot be

taken as bases for deciding on goods in which a country enjoys a comparative advantage' (Pp. 203-04).

Chapter four begins with 'a critical review of the work of General Agreement on Tariffs and Trade (GATT), which began as a stopgap arrangement pending the establishment of the International Trade organisation (ITO), but by the early 1950s, became a regular feature of the world trade structure, remained so until its replacement by WTO in 1995' (p. 140). The author has examined how some of the high principles adopted by GATT have been changed over years to create grounds for protectionist measures in the West (p. 204). This is followed by a detailed examination of the main features of the Marakesh Agreement of April 1994, which followed the eighth round of GATT negotiations, particularly those on investment, patents and subsidies, trade in services, all of which are expected to make the LDCs an open platform for DME's investment through MNCs and thus integrating the LDCs more closely with the global economy (Pp. 141, 205). What the author observed in this process of opening up is that 'while the Western countries have been asking the poor countries to desist from erecting non-tariff barriers, they themselves have been strengthening these during the 1980s to keep the LDC exports out' (p. 387). While it is true that the LDCs may have a chance to improve their export position in food and textiles, a fallacy of composition may emerge when, in view of the author, there may come a 'possibility of a glut in global production in relation to the market opportunity' (Pp. 205-06) when almost all the LDCs chase the same market of DMEs and thus try to outcompete each other. The result is likely to be depressing prices of primary goods (p. 206). Also, 'while theoretically the Western countries are opposed to subsidies, in practice they operate an elaborate system of subsidies', particularly for their farm products (p. 387). The author questions why labour is not allowed to be internationally mobile while capital and commodities are (p.

205). In view of the author, 'the main impact of the establishment of the global patent regime would be to perpetrate the technological dependence on the rich countries (p. 205). The author concludes the chapter by analysing the political economy of promotion of WTO in the 1990s. Chapter four thus is a compact and detailed narration of how the world trade system works in a GATT-WTO framework, heavily weighted in favour of rich nations. The author here is very specific about the fate of the LDCs in this international economic order shaped by the DMEs.

The author then goes on to examine the implications of structural adjustment on environment in chapter five. At first, it seemed to me that this chapter has made the book overloaded. However, a second thought has compelled me to acknowledge the appropriateness of this chapter when trade becomes subject to the bargaining power of the countries in an environmental dispute. It will not be out of context if I cite one recent example here. The US has recently banned shrimp imports from the developing countries, particularly India, Malaysia, Thailand and Pakistan, on the allegation that these exporting countries were not using the Turtle Excluding Device (TED) to prevent killing of turtles facing extinction. The exporting countries complained to the Dispute settlement Body (DSB) of the WTO. The DSB ruled that the US ban was against the spirit of multilateral trading and without any justification. Washington refused to accept the ruling by DSB, announcing that it had the right to enforce unilateral laws to protect endangered species. Thus, US appealed to the Appellate Body of WTO against the ruling of DSB. What is clear from this story presented in brief shows that it is sometimes not the exchange rate, but environment that has come to affect the possibility of export promotion of specific products to their previously settled destinations. In view of the author, there is a big gap in perceptions regarding protection of environment between the rich and poor countries (p. 237). Also, 'self-interest', on which the arguments of NPE stand,

'is itself the main hurdle towards developing an indivisible and global concern for environment' (p. 241). The author opines that 'the unequal distribution of military power among nations is also a major factor inhibiting international cooperation' (p. 241), in addition to the unequal distribution of economic power that 'hinders international cooperation for protecting the environment' (p. 241). In this context of international distribution of power, the author has also brought into discussion the complexities that MNCs bring about in the LDCs through capital-cum-energy intensive technologies (p. 248). The technological dimension of environment analysed by the author seems to be more brief than what is expected from him. At the end of this chapter, the author has shown 'how commercialisation and export orientation have given rise to serious environmental problems in agriculture' (p. 253). In view of the author, 'self-interest' of the rich nations, in a context of the initial unequal access to information and technology, may fail to ensure global environmental control (p. 253). Also the growth question of the late-starters (LDCs) cannot be wished away for global environmental control. Thus, the conflicting interests often manifested in the area of trade possibilities may get shape.

In chapter six the author deals with the question 'whether the East Asian development experience conforms to the norms laid down by SAP of the World Bank. The detailed examination by the author reveals that 'at least the three major countries, Japan, South Korea and Taiwan, violated all the major adjustment norms' and, in view of the author, 'such violation was necessary to engineer growth in a highly competitive world dominated by MNCs of rich country origin, and to move out of a static understanding of comparative advantage that consigned these countries to agriculture and textiles' (p. 312).

Having done a careful examination of the path and strategy of development of East Asian countries, the author came to the conclusion that the governments in these countries played an active role in promoting industrialisation. The state in East Asian countries set the rules of competition between firms, prescribed norms for the allocation of scarce resources and took a deliberate policy of keeping foreign competition out of the way in areas where domestic industries needed a breathing space for at least a stipulated period (Pp. 312, 381). In view of the author, many factors worked simultaneously to ensure success of East Asian economies, like '(1) and reform, high investment on education and health' (p. 313). No less important were their cultural homogeneity and attempts at macroeconomic management. They adopted the strategy of import substitution but it was time-bound (p. 313). While the author in this chapter has acknowledged the fact that 'the East Asian growth was synchronised ... with growth in world production and trade' (p. 315), he does not extend this logic to explain why the success of East Asian countries should be taken as exceptions to the general failure of Third World countries in the integrated global order.

The author has, however, extended the analysis to the context of the LDCs by observing that '(i) in most developing countries, the choice is not between private sector and public sector or between the market and the government, but between domestic public sector and foreign private sector, or between MNC-dominated market-orientation and a state-led system that fosters domestic industries' (p. 382). And the author keeps in mind the question of industrialisation of the LDCs in the light of the East Asian success, but he is deliberately less ambitious in giving a direct answer to this question of replicability when he says: 'As to the question whether the past East Asian experience can be replicated in the other LDCs in today's world, the answer is not easy' (Pp. 314-15). It is to be kept in mind for ready reference that the author has examined the

three main East Asian countries in chapter six, namely Japan, Taiwan and South Korea, and has left Hong Kong and Singapore, the city states within East Asia, to be analysed in chapter seven.

In chapter seven the author has elaborated how, in addition to Hong Kong and Singapore in East Asia, the countries of South Asia, particularly Indonesia, Malaysia, Philippines, and Thailand, the countries in Sub-Saharan Africa, in Latin America and the economy of India have been affected by the SAP. What the author has shown in this study is that 'market orientation forced on the LDCs through structural adjustment does not seem to have worked, excepting for one or two countries like Ghana or Chile .... On the contrary, Sub-Saharan Africa has become distinctly poor, and is still underdeveloping (sic), under structural adjustment' (p. 383). Also, as examined by the author, it is an oversimplification to cite the examples of Indonesia, Malaysia and Thailand in South East Asia as examples of success with structural adjustment and without much state intervention (p. 384). On the contrary, 'these countries, in the course of their history, had seldom been the apostle of market economy. In each of these, there had been periods of state intervention, and liberalisation under the pressure of the (Bretton Woods) twins following an economic crisis' (p. 339). The author very rightly does not like to draw any conclusion on the relative roles of market and state in the context of success and failure of these countries often called the 'Southern tier'.

The industrial base of these Southern tier countries is weak as they depend on the MNCs for capital, technology and management (p. 376). 'Though both Indonesia and Thailand have been taking Fund-Bank help from the early part of the 1980s, the relationship between them has been far from easy' (p. 376). The author opines that the high growth rates attained by these economies had to pay a high cost in terms of high external debt. The author also negates the view that liberalisation under the Fund-Bank System had much to do

with the high growth rates attained by these countries. The counter-point cited by the author is that Philippines, a country in South East Asia, having better association with the Fund and the Bank, could do no better (p. 377). Brazil, a large country in Latin America, opened its economy in the 1980s and tried SAP to see no higher growth rate but only higher rate of inflation. The author examined also the case of Mexico, a highly indebted country since the early 1980s, and concluded that 'adjustment failed to bridle price increase, and allowed unregulated foreign speculative capital inflow' that led to recurrence of crisis (p. 377). Chapter seven concludes with a brief analysis of the constraints operating in the Indian economy following declaration of New Economic Policy in 1991 by the Government of India. Overall, in this chapter, the author has analysed the macro-economic conditions of the countries in the three continents, Asia, Africa and Latin America with emphasis on those countries who accepted SAP.

The structural adjustment programme offered by the World Bank, supplemented by the stabilisation policies offered by the international Monetary Fund, came to be introduced in many of the Third World countries. These programmes and policies apparently aimed at helping these countries to overcome crises that emerged because of many reasons, most of which have been discussed by the author in the historical context. As the author has observed, most of these countries, who opened the door for execution of the World Bank prescribed SAP without any home preparation and with constraints of multi-dimensions faced both internally and externally, did not succeed, whatever be the yardstick of success. The author has provided in this book a comprehensive critique of the New Political Economy as a basis for 'liberalisation' and 'privatisation' and has provided a critical account of the implications of these programmes and policies for the Third World countries. The author seems particularly competent and comfortable in

doing a detailed analytical study of the structure of the World Bank and the IMF. The author confidently analyses how the cross-section of the Third World countries appropriately chosen by him operate in that Fund-Bank network. Since the ideological basis of this book is clear from the beginning to the end of the analysis, there is no confusion in drawing his conclusions. In case where easy conclusion is not available from the current study, the author has rightly reserved it for studies by him in future or by other scholars now or in future. In the Epilogue of the book that was written after the manuscript was sent to the publisher, the author has added some current changes and the debates centering around them, that include the financial crisis in South East Asia. This shows the academic commitment of a scholar like Dasgupta.

The author has presented a detailed historical review of the processes, instruments, context and consequences of structural adjustment programmes within the politico-economic framework of global power structure. The author, from such an elaborate analysis, could have developed a theoretical frame. Let me be brief on such a possibility.

Global power-structure is a conceptual category revealed by the interaction of states, arranged in a hierarchy, with one or a combination of states assuming authority. The criterion of the power of the authority is to exercise control through technology and trade and also through military power, if necessary. Power of the authority may be understood as the ability of the unit to affect the behaviour of other units. In the hierarchic arrangement of states, or what we call global power-structure during a particular time-interval in history, one state or a combination of states, becomes the leader who chalks out the rules of the game for participation of the countries in the International Economic Order (IEO). By implication, a particular state becomes a leader at a particular historical juncture, while other states

maintain the position of followers, the activities of the leader being rationalised by exercise of its own state power and accepted as mandate by the followers. Corresponding to a particular power structure, rules are dictated by the leader, and are subject to the followers' acknowledgement of actual and potential benefits offered by the leader. Once such rules are legitimised by participation of almost all countries, they show not only how the states are to participate, but also how the international institutions and corporations are to participate.

The countries participating in the post-Second World War IEO have acknowledged United States as the leader. In fact, post-Second World War period saw the accelerated expansion of US commitments and its entry into regions where previously Europe and particularly Britain had influence. It may be thought of as a transformation from pre-First World War U.K.-led 'territorial expansionism' to post-Second World War U.S.-led 'transnational expansionism'. And the IEO, which has been shaped and influenced by US, has brought with it a previously unknown legal permanence of the system for example, those associated with the principles and practices of international organisations like GATT (extended to WTO with its Most Favoured Nation clause), IMF (with currency stability and convertibility), World Bank (for Reconstruction and Development Aid).

What Dasgupta has elaborated in his book could aim at developing a theory in terms of such a power structure. History gives the lesson, also what is confirmed from Dasgupta's book, that the leader (US) has to consolidate its position and protect it for maintaining its position of number one. The leader has to defend the members under its umbrella against common enemies. The leader has also to contain the Third World pressure, accommodate close dependents and contain challenges from within. At the same time, the leader cannot afford to be outcompeted by its

allies and followers. Why do the accommodated states and followers accept the strategy of the leader? The simple reason is that by this process catalytic states can expect to achieve their goals less by relying on their own resources than by assuming a dominant role in coalition of states, transnational institutions, and power-sector groups. Why do Third World countries (TWCs), particularly countries outside the hegemonic umbrella, accept the strategy? The possible answer is, in this process, TWCs see themselves as potential beneficiaries by being in the list of foreign investment essentially by Transnational Corporations (TNCs). This also consolidates the 'Imperial System' when the potential challengers of US within DMEs get the opportunities for entry

into the markets of TWCs which suit them.

In my view, this book by Dasgupta is for all, the academicians and economists, the political managers, the research students particularly interested in international political economy, the government and policy makers, and people in general. I hope the book wins the test of time.

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## BOOKS RECEIVED

Ayres, Robert U. (Ed.), *Eco-restructuring: Implications for Sustainable Development*, United Nations University Press, Tokyo and Vistaar Publications, New Delhi, 1998.

The contributions in this volume are papers presented at the Eco-Restructuring Conference held in Tokyo in July 1993 by the United Nations University, with the objective of exploring the technical and economic feasibility of long-term sustainability. Sustainability means here acceptance of limits (i) to the capacity of natural environment to accommodate anthropogenic disturbances, (ii) to the sustainability of conventional market goods and services, and (iii) to the extent to which technology can repair or replace irreversibly damaged environmental resources. In order to achieve sustainability, it is necessary to reverse most of the current demographic, economic and industrial trends. Such a reversal, entails fundamental changes in the economic system and institutional framework of society. This concept of eco-restructuring is the theme of the book. Since feasibility of sustainable industrialization is a multi- and interdisciplinary area, it pervades a number of important technical, economic, political, institutional, social and cultural issues. But, the majority of contributions in this book deal with technological issues on a sectoral basis. Each technology paper presents the state of the sector, the primary issues involved in its sustainability, and the technical means for achieving sustainable outcomes. The sectors covered include energy, tropical land use, materials, transport, etc. The first background paper presents a holistic analysis of the concept of eco-restructuring while the remaining eleven papers are organized into two parts thus: Part I. Restructuring resource use, and Part II. Restructuring sectors and the sectoral balance of the economy.

Cadène, Philippe and Holmstrom, Mark (Eds.), *Decentralized Production in India: Industrial Districts, Flexible Specialization, and Employment*, French Institute of Pondicherry and Sage Publications, New Delhi, 1998.

This collection presents 13 articles discussed in the workshop held in Pondicherry in 1994 and rewritten in the light of those debates. The central theme of these case studies and discussion papers is that small and medium enterprises (SMEs), if they stand alone, are vulnerable particularly in the

new conditions created by liberalization and globalization; but clusters of technically and economically interdependent firms can survive, provide more employment opportunities and prosper; they not only meet the fierce competition, but turn it to their advantage, for networks of smaller decision-making units achieve collective efficiency by working together. This concept of flexible specialization - meaning replacement of fordist mass production by decentralized production and less hierarchical management - and its correlates, like labour flexibility, labour-friendly development, industrial districts, etc., served as a model and succeeded first in the industrialized countries and then in industrializing countries. The papers in this volume discuss the prospects of success for this model in the Indian industrial environment.

The volume is divided into four parts: Part 1 sets the terms of the debate, examining the experiences of SMEs in Italy, Germany, Brazil, and Rajasthan and Tamil Nadu in India. Their wider relevance is investigated. Part 2 contains three studies of industrial districts in the making, based on engineering and new technologies. Part 3 is devoted to three studies of older industries, footwear, textiles and construction, their chances of achieving flexible specialization, and the social obstacles therein. They represent negative findings. Finally, Part 4 deals with the politics of industrial districts, the role of business associations, and relations with governments.

Candler, Wilfred and Nalini Kumar, *India: The Dairy Revolution, The Impact of Dairy Development in India and the World Bank's Contribution*, The World Bank, Washington, D.C., 1998.

This Report is a part of the publication series of the Operations Evaluation Department of the World Bank. It is based on performance audits and other studies of Operation Flood, which was supported by the five Indian dairy projects, one each in Karnataka, Rajasthan and Madhya Pradesh, and the two National Dairy Projects. These projects were implemented during the period from 1974 to 1996, and were supported by the World Bank. The Bank's strategy was to support



the expansion of dairy production by small producers. The Report finds that it did work, since despite substantial government assistance, enabling legislation, and government control of some apex organizations, the dairy industry is today dominated by farmer-controlled village-level dairy cooperative societies and some regional Milk Producers' Unions. This finding is substantiated by the analysis of data, such as project designs, targets set and achieved, and benefits for both, producers and consumers of milk. The Report also includes economic, social and institutional impact at village level as well as on policies regarding dairy development. Finally, it draws the lessons to be learnt and also recommends certain measures.

Dhindsa, K.S., *Indian Immigrants in United Kingdom: A Socio-Economic Analysis*, Concept Publishing Company, New Delhi, 1998.

This book presents a comprehensive and systematic analysis of the social and economic characteristics of Indian migrants settled in the United Kingdom (UK). It consists of five chapters out of which two are devoted to theoretical and methodological aspects. Empirical work is presented in the remaining chapters using tabular analysis.

The specific issues dealt with are causes of emigration, total amount of remittances sent home by the migrants and their mode of utilization in India, assimilation problem, retaining of Indian cultural values by these migrants, the views of their children regarding love or arranged marriage, etc. The survey also reveals that the British born immigrants' children have been experiencing discrimination while seeking jobs and promotions. Hence, it is pointed out that the British government should take concrete steps to prevent it.

Further, it is argued that in spite of the Indian government's attractive schemes for investment from these migrants in India, there is a desperate lack of publicity for such schemes.

Epstein, T. Scarlett, A.P. Suryanarayana and T. Thimmegowda, *Village Voices: Forty Years of Rural Transformation in South India*, Sage Publications, New Delhi, 1998.

This is a micro-study of rural development over a period between 1954-56 and 1996-97. It is neither a learned thesis nor a journalistic publication but an informative, readable and interesting account, yet with a scientific basis and academic rigour. The two villages chosen for the study are Wangala and Dalena in Malavalli taluka in Mandya district of Karnataka. The traditional social and cultural practices, particularly gender and caste discriminatory ones, have been surveyed. How and how far education, liberal social legislation, technological progress especially in agriculture, urbanization and party politics have altered them is analyzed. The impact of economic factors such as commercial and financial opportunities, and of political factors like democratic decentralized rule (*panchayat raj*), on the two villages have been documented from the perspective of not merely the authors but also of their village informants.

Frank, Andre Gunder, *ReOrient: Global Economy in the Asian Age*, Vistaar Publications, New Delhi, 1998.

This book, the author claims, 'is my first more holistic attempt to see how the structure/function/dynamic of the world economy/system itself influences, if not determines, what happened - and still happens - in its various parts. The whole is not only greater than the sum of the parts. It also shapes the parts and their relations to each other, which in turn transform the whole' (p. xxvii). Historical events are rendered in a wide global perspective to account for the decline of the East and the concomitant rise of the West within the world as a whole. World development between 1400 and 1800, it is pointed out, reflects not Asia's weakness but its strength, and not Europe's nonexistent strength but rather its relative weakness in the global economy; it was all these regions' joint participation and place in the single but unequally structured and unevenly changing global economy that resulted in changes in their

relative positions in the world. European states used the silver extracted from the American colonies to buy entry into an expanding Asian market, which already flourished in the cyclical world economy by means of the very productive commercial and institutional mechanisms.

Theoretically, evidence presented here shows that the Eurocentric social theory lacks all basis in historical reality and itself rests on no foundation other than Eurocentric ideology of domination. Further, this theory assumes existence of innate and primeval diversity *against* unity. The purpose of this book is to construct an intellectual basis for accepting *diversity in unity* and celebrating *unity in diversity*.

Ganguly, Rajat, *Kin State Intervention in Ethnic Conflicts: Lessons from South Asia*, Sage Publications, New Delhi, 1998.

The volume presents a theoretical framework for understanding the role of ethnic kin states. This framework is then tested against five major case-studies: (i) Kashmiri secession in India and the role played by Pakistan; (ii) Bengali secessionist movement in erstwhile East Pakistan and the role played by India; (iii) Baluchi secession in Pakistan and the role played by Afghanistan and Iran; (iv) Afghanistan's role in the 'Pakistan' movement in Pakistan; and (v) India's role in the Tamil secessionist movement in Sri Lanka.

The author concludes that while diffusion and encouragement of the secessionists is the favored practice of kin states, other policies - ranging from the isolation and suppression of such movements to efforts to bring about reconciliation among the disputing parties - are also followed. The motives that lie behind the different approaches are analysed. Also, the consequences of these policies for the secessionists with respect to their movements' continued survival and international acceptance, are highlighted.

Herman Barry and Krishna Sharma (Eds.), *International Finance and Developing Countries in a Year of Crisis: 1997 Discussions at the United Nations*, Vistaar Publications, New Delhi, 1996.

This volume features a number of presentations made to the Second Committee of the General Assembly in the fall of 1997 on global financial issues. It examines the international financial and currency crisis that burst on the scene in Asia in July 1997 continued to fester, deepen and spread. As of early January 1998, as this is written, it was unclear how it would finally be resolved. This volume reviews the results of the Assembly's deliberations on the financing of development in 1997 and makes available to a wider audience the perceptions and analyses of the external experts who contributed to the General Assembly's work. The first two chapters present the editors' analysis of the international financial crisis in some of the 'emerging-market' economies in Asia. The crisis is seen in the context of the surging private flows to a group of the developing countries in the 1990s and stagnating official flows. Implications of the crisis for policy-makers are assessed. The third chapter emphasizes the opportunity that the United Nations now has to make a major contribution to international policy for development. The fourth chapter discusses lessons arising from developments in Asia for both national policy-makers and the international community. The fifth chapter analyses various issues raised by capital flows to emerging markets. While recognizing the benefits accruing from these flows, the need for governments and the international community to be able to manage their volatility is stressed. The sixth chapter addresses the role of foreign capital, and especially of capital-market liberalization, in economic development, focusing on the experience of South-East Asia. The seventh chapter focuses on what developing country governments can do to attract external financial resources and absorb them most effectively, especially in the light of the Asian financial crisis. The final chapter, calls for an intergovernmental conference on finance and development. It is argued that the current system

of global economic governance does not adequately represent developing economies. And, therefore, it is asserted that this needs to be changed since the increasing integration of these countries into the global economy not only raises risks to them but also to the world economic system.

Jain, L.C., *The City of Hope: The Faridabad Story* Concept Publishing Company, New Delhi, 1998.

This volume is a first hand account of the ups and downs of the pioneering and major experiment in rehabilitation through self-help at Faridabad during the years 1949-58. It was precipitated by the Union Rehabilitation Ministry's overnight decision to push the 30,000 refugees of the erstwhile North-West Frontier Province to destitution by withdrawing the gratuitous relief accorded to them in their Refugee Camp, in spite of the oft-repeated commitment to providing them work before cutting off such relief. Inspired by Jawaharlal Nehru they succeeded in building an industrial township through labour cooperatives. The volume narrates how with massive response and relentless hard work, and work of a nature diametrically opposite to their previous background, they transformed house-building plans to human and social development opportunities through non-colonial systems of health, education and also of ownership of industrial enterprises. The autonomous Faridabad Development Board, initially shielded from government rules and rulers, was the anchor of the experiment. But, in spite of earnest efforts by Nehru and Rajendra Prasad who were also members of the Board, it could not be accorded statutory status and ultimately the Rehabilitation Ministry acquired its control and ruined not only the Board but the entire revolution - economic, social, educational and cultural. Thus, the volume throws light on the obstacles faced by autonomous organizations - how their initiative and independence are stifled by ministers and administrators in the name of accountability to

Parliament. It highlights the necessity of power structures of the shape of a platform and not a pyramid.

Lal, A.K., *Dalits in Action: An Evaluation of Bihar Dalit Vikas Samiti*, Concept Publishing Company, New Delhi, 1997.

The present study is an attempt to evaluate the working of the Bihar Dalit Vikas Samiti - a community action group devoted to arousal of corporate striving among the dalits through constructive and people-oriented activism. The origin, growth and present status of this organization as well as the impact of its strategy for social transformation among the target groups concerned are studied. Achievements as well as limitations of the organization, characteristics of its core pattern of leadership and support, recruitment, strategies to usher in needed intervention, are all documented. Attempts are also made to discern the extent of self-dependence and professionalism generated among the activists so as to make the movement sustainable.

Lal, A.K. (Ed.), *Secularism: Concept and Practice*, Concept Publishing Company, New Delhi, 1998.

This collection comprises papers presented in a seminar on 'Secularism - Concept and Practice', held in November 1993 at A.N. Sinha Institute of Social Studies, Patna in collaboration with the Indian Social Institute, New Delhi. It also includes papers specially written on the theme after the conclusion of the seminar. They attempt to initiate fresh dialogue on the concept and practice of secularism in India. Indian secularism has been criticized for its failure to contain religious stresses and strains. Considered as an ideology of the state, it has failed to be an effective reference model to guide the shaping of social interaction in the society. Being statist, it has undergone excessive politicization but has not gone deep in the domain of civil society.

Pathak, Bindeshwar (Ed.), *Continuity and Change in Indian Society: Essays in Memory of Late Prof. Narmadeshwar Prasad*, Concept Publishing Company, New Delhi, 1998.

This collection of articles attempts to initiate a dialogue on change and continuity in Indian society. It seeks to add to the available literature on the theme in order to provide understanding of factors facilitating change as well as those opposed to it. Topics articulated here include pattern of change, selective adaptation, stresses and strains in transition, limitations of strategies for change and conflict between ascendants and embedded. Gaps in scientific investigation of the context and consequences of change are identified. Priority areas for exploration are indicated to outline rounded perspective on change and continuity in Indian society. All these motifs are explained and elaborated in depth as well as in coverage.

Pathak, Bindeshwar, *Rural Violence in Bihar*, Concept Publishing Company, New Delhi, 1993.

The present study analyses some of the well-known incidents of rural violence in Bihar. The materials for the study are collected by interviewing people from the villages covered for the study. Information culled out from different reports, periodicals and newsmagazines constitute other sources for the data collection. It is an attempt to lay bare the underlying bases, the deep roots of rural violence in a milieu exposed to forces of modernity. In addition, the pattern and magnitude of violence characterizing each act of brutality, solidarity forged and divisiveness discerned are all subjected to sociological scrutiny in this volume.

Radhakrishna, R. and Alakh N. Sharma (Eds.), *Empowering Rural Labour in India: Market, State and Mobilization*, Institute for Human Development, New Delhi, 1998.

This collection comprises, besides an Introduction, 21 articles by experts and activists on the rural labour, the most unprotected and so far the most neglected group of workers in India. It provides an in-depth analysis of the recent

developments and processes at work in the rural labour markets and evaluates how far the attempts towards their empowerment have been successful. The role of the market forces, state intervention, trade unions, political parties and non-governmental organizations is examined in detail both, at micro and macro levels. Divided into three parts - 1. Labour Markets and Rural Poverty, 2. Policy Environment and State Interventions, and 3. Mobilization for Empowerment - the volume assesses the various social security nets of the state to generate employment and alleviate poverty, so that the rural labour is not adversely affected in the process of stabilization and structural adjustment.

Rajasekhar, D. (Ed.), *Professor G. Parthasarathy's Writings on Indian Rural Economy in Transition*, Printwell Publishers Distributors, Jaipur, 1998.

This volume comprises ten papers written by G. Parthasarathy between July 1989 and June 1991 and an Introduction to them by the Editor. The Papers deal with a variety of issues, that cropped up during the transition process of the Indian rural economy in the post-Independence period. They assess how far the inequality in rural India has been eliminated through such developments as land reforms (land ceiling and tenancy laws), nationalization of commercial banks, technological improvements in irrigation, seeds, fertilizers, and other inputs.

The first chapter (Paper) discusses changes in the agrarian structure and the factors contributing to such changes like land reform and green revolution. The second chapter studies the social impact of the technology of high yielding varieties (HYV) and analyses the transition from green to red revolution through class formation and conflicts. In the third chapter, lease market is surveyed and tenancy reforms are assessed, whereas in the fourth chapter, problems concerning agricultural labour, and rural employment and wages are investigated. The next chapter is devoted to the measurement of poverty and the concepts of absolute and relative poverty.

Chapter 6 examines how far the employment and income needs of the rural poor are met by programmes like Jawahar Rojgar Yojana and TRYSEM. Chapter 7 is a micro study of rural poverty in Andhra Pradesh in the context of changing agrarian relations and agricultural performance, while Chapter 8 focuses on Orissa. Chapter 9 elaborates on the emerging trend of dualism in the economy, whereby resources are sucked into the affluent sector for consumption and for capital goods that serve consumption in that sector. The final chapter is a case-study of a village in Andhra Pradesh earlier surveyed in the sixties, to capture the dynamics of transition during the period between 1970 and 1990.

Singer, Sir Hans, Neelambar Hatti and Rameshwar Tandon, (Eds.), *Export-led Versus Balanced Growth in the 1990s, New World Order Series, Volume 13*, B.R. Publishing Corporation, Delhi, 1998.

This volume presents one of the most influential ideas in the post-war development policy debate, the Prebisch-Singer Hypothesis about structural tendency for the net barter terms of trade of the Less Developed Countries (LDCs) to deteriorate in their dealings with the developed countries. Since the Hypothesis asserts that this past experience of the LDCs has been and will continue to be the cause of ever-widening gap in their per capita incomes, it is contended here that the LDCs should counteract these trends by forming regional groups with more widely protected markets, while claiming international assistance. Subsequently, the Prebisch-Singer Hypothesis is broadened, from barter terms of trade into questions of international hierarchy and of technology and other areas of dominance. A qualified version of the Hypothesis, shifts from barter terms of trade to employment-corrected double factorial terms of trade - a shift away from the characteristics of commodities to those of countries. The volume analyses all these dimensions of the Hypothesis in five parts.

Sinha, Durganand, Rama Charan Tripathi and Girishwar Misra, (Eds.), *Deprivation: Its Social Roots and Psychological Consequences*, Concept Publishing Company, New Delhi, 1982, Reprint 1995.

The papers included in the book deal with conceptual and methodological issues involved in the study of deprivation and psycho-social consequences of cultural and economic disadvantage in several relevant areas of human functioning. The effects of deprivation in diverse contexts, viz., nutritional deficiency, language deficits, development of cognitive skills, school achievement, motivational and personality changes have been analysed. Finally, an attempt is made to suggest intervention strategies to cope with the problems of socio-economic disadvantage.

Thomas, Alan, Joanna Chataway and Marc Wuyts (Eds.), *Finding Out Fast: Investigative Skills for Policy and Development*, Vistaar Publications, New Delhi, 1998.

The subject matter of this book is effective policy research in the context of development as public action. It explains how to commission as well as appraise research, that is, how to investigate competently and how to use such investigation better.

The book contains fourteen contributions from different authors, besides the introductory and concluding chapters by the Editors. The contributions are divided into four sections: Section I conceptualizes policy-related investigation and emphasizes its significance for taking informed policy decisions. A range of analytical skills and methods used for investigation are presented at a conceptual level. A checklist of points to bear in mind, while using a particular skill or while assessing an investigation which has used that skill, is included. Also, some practical examples are given to stress the point that the appropriateness of different methods derives from the needs of different contexts. Section II is devoted to investigations through documents and literature

surveys, while Section III concentrates on investigations through fieldwork, i.e., collecting data from the people and organizations with the help of questionnaires and interview schedules. A chapter in this section discusses dilemmas of information gathering and the role of the investigator - whether it should be objective, technical or subjective, participatory, in order to have enhanced understanding of the issues involved. Also, there is a chapter that explains how to communicate results of investigations better so that the impact of sequencing and substance is maximum. Section IV reviews quantitative data, including institutional accounts which plays a key role in policy analysis. A chapter in this section discusses the nature and limitations of data and its interpretation. Another chapter is devoted to the use of case studies which combine quantitative and qualitative data as different forms of evidence.

World Bank, *East Asia: The Road to Recovery*, The World Bank, Washington, D.C., 1998.

This Report views the East Asian crisis as a story of rapid growth built on a fragile, incomplete foundation, which was left exposed to the winds of international capital markets. The currency, banking and financial crises, have quickly developed into economic, social and environmental crises, when the financial blow was accompanied by forest fires, which burned out of control, razed more than 30,000 hectares of forest in Indonesia, and spread a thick pall of smoke over large parts of Southeast Asia. Structural weaknesses were spawned by the rapid growth without safeguards. Chapters 2, 3 and 4 discuss them as follows: (i) large current account deficits financed with short-term rapid in-flows of capital, readily available due to globalization of financial markets; (ii) inadequate regulation of (a) domestic financial markets, their growth and integration with global markets, and (b) banks' borrowings, allowing them to borrow unhedged loans with maturity mismatches; and (iii) weak corporate governance (lack of rules, norms and organizations to govern corporate behaviour and

define accountability to investors) allowing corporate sector to borrow heavily from banks for rapid expansion without alternative sources of finance and becoming highly leveraged, thus exposing it to interest surges. Chapter 5 is devoted to social sector problems, like persistent poverty, rising income inequality, malnutrition, declining public services, threats to educational and health conditions, labour relations, corruption, crime and violence, etc., while Chapter 6 to environment. Chapter 7 focuses on the strategy for recovery: (i) structural reforms that will allow recovery to take hold sooner and make it enduring; (ii) mobilizing capital to help jump-start economic growth; and (iii) protecting the poor during the crisis and ensuring that they will share in recovery when it comes. Although it is too soon to provide a definitive review, the Report takes stock of progress in the region and highlights the factors shaping East Asian future.

World Bank, *World Development Indicators*, The World Bank, Washington, D.C., 1998.

This publication of the World Bank provides timely data on key development issues and trends which are focussed in the introductions to each section. Coverage of most indicators extends through 1996 and most tables show indicators for both a recent and an earlier year or period. They cover 148 economies with populations of more than one million.

The first section, *World View*, reports on progress toward international development goals - goals that should be achieved early in the 21st century. This report will become a standard feature of the *World Development Indicators*. *World View* contains two tables on long-term growth. *People* (the second section) has new tables on employment, unemployment, and reproductive health. The introduction to the third section, *Environment*, reports on three big issues for development and the environment: genuine saving, trade in goods from polluting industries, and demand for transport fuels. The fourth section,

*Economy*, includes the most recent data on relative prices from the International Comparison Programme, preliminary estimates of macroeconomic indicators for 1997 for 37 developing countries, and projections of world economic growth through 2000. The fifth section, *States and Markets* provides data on state involvement in economic activities for various countries: ratios of government spending to total GDP, privatization of state-owned enterprises, corruption, loan servicing, also a table on military

expenditures and trade in arms, and so on. The sixth section, *Global Links*, includes recent estimates of capital flows and coverage of inter-regional trade flows and tariff rates. The last section (seventh) describes some of the statistical procedures used in preparing the *World Development Indicators* and documents some of the primary data.

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Maital, S., 1973; 'Public Goods and Income Distribution', *Econometrica*, Vol. XLI, May, 1973.

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