

JANATA ECONOMIC POLICY

by

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INTRODUCTION

The Janata Economic Policy Statement is a distinct departure from the existing policy of the country and has the objective of evolving an economic system which may avoid the evils both of capitalism and communism. For such a unique effort, which if successful, can have important repercussions on other economic systems, it is obviously desirable to have a statement which not only explains the philosophy, in terms easy to understand, but also takes note of the difficulties in the way of its implementation and therefore of the preparations that may be necessary and the time that may be involved in achieving the goal. If the Janata Economic Policy can succeed, it will thus create a landmark not only in the economic history of the country, but also of the world.

Critics of the policy have judged it either from their own narrow standpoint or vested interests or have found faults in certain obvious deficiencies in the presentation of the policy, such as want of clarity in some parts, hasty statements in other parts, confusion of ideas in some cases and absence of awareness of difficulties of implementation and so on. Those who are able to see the sincerity and honesty of purpose involved in this grand effort to evolve Gandhian Socialism or better still Gandhism in practice, may do well to point out deficiencies with a view to improving the policy statement in several respects, keeping the main objectives in view. It is well known that Partly because of pressure of time, also because of the need to reconcile diverse opinions within the party itself, and perhaps the absence of trained economists in drafting the statement, which seems to be a handy work of politicians only, some of the deficiencies may have crept in. There is no doubt that this first attempt will result in several revised versions of the policy statement in due course in the light of further thinking as well as experience, and will take due note of the realities of the present situation, and the magnitude of the task involved in bringing a new Social Order, which can be an improvement on known social and economic systems.

It is proposed to have a rapid review of the Economic Policy including the Industrial Policy.

The Philosophy

The Janata party has decided to follow the path of Gandhian Socialism which will avoid the defects of capitalism as well as communism. In other words, it wants to remove exploitation of all kinds as well as eradicate poverty and unemployment on the one hand, and bring about a society in which there is greater equality, freedom and initiative to all parties on the other. This means that it will not have the evils of capitalism which involves exploitation, nor evils of communism which involves regimentation of life.

This is a concept which is superior to that of the prevailing economic and social systems, and will be an effort towards a nobler system in which people will enjoy freedom and equality, while having the necessary means of life at a reasonable level. The Janata party deserves congratulation for placing before itself such an ideal form of society. Such an effort must take time and effort in a large country like ours, and if successful, will have important repercussions on the economic and social systems and social philosophy the world over. We wish them success in their efforts to put in practice Gandhian thoughts.

Objectives

Among the objectives we may mention briefly- (a) an expanding economy with higher production in agriculture and industry; (b) maximum employment; (c) equitable distribution; (d) prevention of exploitation of labour of others; and (e) the adoption of the concept of trusteeship as envisaged by Gandhiji in the use of private property. In other words, the party will concentrate on growth for social justice. These objectives are commendable.

Presentation

Having briefly referred to the philosophy and objectives of the Janata Economic Policy, we may make a brief reference to the presentation of their policy, that is the form in which it is formulated and the way in which it is made available for understanding by the public, whose co-operation is naturally required in implementing the same. One is constrained to have to say that though some of the earlier paragraphs of the Policy Statement are drafted in clear excellent style and language, in some of the later paragraphs there is obvious haste, some confusion of thought, some mixture of ideas, even some want of logic sketchy treatment of important issues.

Besides, there is a pious statement to the effect that "it is our belief that a literary army will help us in tackling the problem of unemployment among the educated youth and a land army will help in solving the problem of rural unemployment".

Publicity

One would have thought that the Janata Party have taken the trouble to see that its revolutionary ideas, some of them eminently desirable, are understood by the people at large, so that they may be enthused about them, and try to co-operate with understanding. The simple thing which could have been done was to translate the statement in all the 16 recognised languages of the country, and see that copies were made available at a cheap rate to all concerned, and also see that members of the Janata Party who were in a position to explain the statement or teachers of Economics in various colleges, who could certainly explain the same, were utilised to hold talks or discussions about the same in all possible rural and urban areas in the country. If this was done, the newspapers would have also shown greater interest in the same. Perhaps ideas for improvement would have grown from such discussions.

In the absence of such an effort some of the leading newspapers began criticising some aspects of the Policy Statement, with which they did not agree, some because of a political angle, others because of vested interests and some on ground of principles. In a few cases, some Ministers began replying in public speeches to such criticisms. All this created a lot of confusion, because a clear picture could not arise. The public relations of the Janata party on this vital subject have been unfortunately poor.

Rural Development.

The main emphasis of the Janata Economic Policy is on Rural Development, as the desired progress so far has not taken place in rural areas by our planning efforts. It is rightly believed that as the majority of the people in our country live in villages, the development of the rural areas should be the main plank of economic planning. The objective is excellent and is a distinct improvement on the former policy. The problem however is that of implementation. The suggestion is that at least 40 per cent of the Plan Expenditure should be devoted to Agriculture and Allied Services. Quite a good amount was provided in the last five plans for rural development, though it was not as high. The fruits of these efforts have however not been realised because the implementation was poor. A large number of agencies (about 30) were entrusted with the work of rural development, and some of them were over-lapping in functions. There was no co-ordina-

tion between them. It has been estimated that 60 per cent of the Plan Expenditure on Agriculture and Allied Services was spent on Administration. Of the remaining 40 per cent, perhaps only a small percentage reached the farmer because of leakage in the process.

The problem before the Janata Government is about the machinery suited to the greater effort that is to be done for rural development hereafter. They are obviously aware of the problem but have not yet taken adequate steps to overhaul the machinery, though the New Plan is supposed to have started on 1st April. A Committee was appointed to review the Panchayat System with Dr. Ashok Mehta as Chairman, as the Panchayats will be the bodies to be put in charge of some of the work for rural development. It is well-known that the Panchayats are in most cases hot beds of political intrigue; certain politicians have utilised them for their own advancement with the consequence that they have not become effective agents for rural development. Similarly, the idea to have a Block Development Programme, was considered by a Committee presided over by Professor Dantwala. The way in which voluntary agencies can help is being investigated by a Committee presided over by Mr. Sivaraman, member of the planning Commission. All these efforts are in the right direction, but how far we shall be able to achieve the complete change in outlook and method required for the new policy is not known. What is of the greatest importance in rural development is to create a consciousness among the farmers and the rural people for an urge to develop by their own efforts, which means create self-reliance in them. For this purpose, we need devoted workers with zeal and enthusiasm of the missionary or Sarvodaya type, who will be willing to live among the villagers, mix with them, inspire confidence in them, and find out their real problems and suggest solutions. Whether the official machinery will be able to do this is a question. Whether we have enough voluntary agencies of this type is not known. Recently, industrial houses have been encouraged to adopt villages or rural areas to do rural development work out of their own resources both financial and human. There are one or two well-known industrialists who have devoted themselves to such work in the past and are known for their benevolent attitude and work. Barring such exceptions, it is not easy to see how the industrialist is competent to do rural works. The Government has given encouragement by exempting such expenditure of industries from income tax. But it may be that a good part of such expenditure may be incurred on the air-travel or air-conditioned travel of industrialists or their officers to go to the village area where they will appear as strangers.

We have in the country selfless people who with a little direction and training can undertake such devoted work of living in the rural areas

and identify themselves with the rural people. They may require a subsistence allowance for their minimum needs as they would be willing to live a simple life. At the same time, in order to make it easy for the necessary change in agricultural techniques, we should rapidly establish agricultural poly-technics, where those interested can be given short term or long term training as the case may be. No big expenditure will be necessary, as it is possible to utilise the Agricultural Universities, for the establishment of such poly-technics, where we have the necessary equipment, staff, space, building etc. It will thus be possible for the Agricultural Universities to create an impact on the rural areas which is not the case at present. I know of a case of a well organised Agricultural University which has no impact on a village 2 miles away. These few remarks have been made to show the vastness as well the complications of the problem and type of organisation and efforts that will be required. Besides, as agricultural is a State subject, most of this work will have to be done through the States. We are not aware whether the States have imbibed the Janata Policy ideas on rural development. In view of the fact that we have other political parties in power in some of the States, we have yet to find out whether the necessary co-operation from all of them will be available for this purpose.

Industrial Policy

In order to increase employment the Janata Economic Policy emphasises labour intensive technology and small scale industries. Large scale industries will be expected to find their own resources for expansion. There will be reservation of about 807 items for small scale industries in which large scale industries will not have further scope. The small scale industry is defined as one with an investment of Rs. 10 lakhs. As this may be large for several smaller units, a new category called Tiny Industries with a capital of Rs. 1 lakh is also indicated. There are a large number of tiny units in the country and it is proposed to encourage them in every way.

The problem in this respect also is that of implementation. We have already a large net-work of facilities for the development of small scale industries. This has achieved some measure of success. In spite of this, it must be pointed out that there is a good deal of sickness in small scale industries. For example, loans advanced by the State Industrial Finance Corporation to small scale industries are not returned in several cases and appears that they will have to be written off as the industries are closed down or are not working. This may be due among other causes to the haste with which officers go on advancing loans to such industries. The work of the officer is judged by number of small scale units to which loans are advanced and the performance aspect is not taken into account. The

officer therefore goes on advancing loans, irrespective of the feasibility of schemes presented to him and the defects in management, in marketing, raw materials and so on. Whereas we do not have full information about the existing small scale industries in the country, so far as the tiny units are concerned there is practically no information available. They will be so many in number and so many claimants of existing and new units of this nature will arise, that the problem existing with them will be immense. Besides the large resources that will be necessary to see whether their work is up to the mark if failure is to be avoided. It has been decided to set up District Industries Centres which will make it easy for the parties concerned to get all their permits at such centres and save time in process. There are at present a large number of organisation working for the development of small scale industries. It is not clear whether the District Industries Centres will take over these function or will coordinate the the functions of existing bodies. In any case, it will take some time before the organisational experiment is made in some districts and an effective arrangement is made throughout the country to develop small scale and tiny industries. We cannot expect the miracle of large production from them in a short time. A large number of such centres has been already established.

Apart from this, there is one important aspect in the Policy Statement which has naturally created considerable controversy. A formula has been promulgated to the effect that what can be produced by the cottage industry shall not be produced by the small scale industry, and what can be produced by the small scale industry shall not be produced by the large scale industry. The implications of this apparently attractive statement have not been studied carefully. For example, recently, the Minister of Industries announced that he had asked Hindustan Lever to stop producing soaps in 3 years, and Wimco to stop producing matches in a period of 3 years. The object in this is to see that the field is left-open to small scale industry to make soap and matches and be able to have the market without competition from the existing large units. It is one thing for the policy to say that the existing producers of this type may not expand, and that additional demand should be met by small scale units. However, with the growth of population as well as with the rural development and labour intensive methods of employment, the demand for articles of this nature is bound to increase. Before the small scale units have been organised to make products of this nature to meet the growing demand, if the existing units are asked to dismantle their equipment, we shall have on the one hand the loss of valuable resources, and on the other hand the scarcity of goods

in question may arise leading to higher prices¹. The logical conclusion of such a policy may be that all the textile units in the country may be asked to close down in a particular period of time, so that the handlooms may be in a position to have the entire market for cloth produced by them, so that small scale units may have the opportunity to thrive, which may mean a larger subsidy for their maintenance. This will involve indirect coercion by the government on the people to use Khadi and give up the use of other type of cloth to which they are accustomed, even as there is going to be coercion on the people to give up the use of soap and matches to which they are accustomed in performance to similar things made by smaller units. One may wonder whether this sort of coercion does not amount to violence on the freedom of the consumer. It looks like regimentation of the life of the people, which the theory according to the philosophy of the Janata Policy they want to avoid. There is thus a contradiction in practice in implementing the Janata Economic Policy which goes counter to their own philosophy. Instead of Gandhian socialism we may have communistic regimentation of life by these methods. It is one thing to create opportunities for more employment for small scale units for which there is unlimited scope; it is another thing to destroy existing equipment in order to make it easy for small scale industries to have the market for themselves. We know of protection to industry which puts up barriers against competition from the industries of other countries, but we have not yet heard of protection which tries to destroy the existing equipment of competing big units within the country, to make way for the new smaller and weaker ones. This is neither logical nor economical and needs a thorough revision. We are likely to be faced with all round scarcity if this policy is followed.

Resources

The usual resources which the Government has for its functions are (a) taxation; (b) loans; (c) foreign aid which is often foreign loans and (d) deficit financing. The first three can bring genuine resources from the savings of the people or of foreign nationals to help in running the government as well as for development. The fourth is the Keynesian Concept of pumping money into the economy to offset a depression, which is one of the evils of the capitalist system. This is a short term remedy suitable to developed countries, where both equipment and manpower are ready to utilise the new resources to remove depression, to bring about equilibrium in the economy. This concept has been wrongly applied to developing

1. Mr. George Fernandex defended the policy in a lecture in Bombay on 6th April. He belived that it would be possible to create immediate employment for more people in rural areas for making more soap and matches.

countries like ours, where it is assumed that by pumping created money in the economy it will be possible to finance large projects for development. It is assumed that the small rise in prices that may follow will be made up by the additional production that would take place. It has been proved since such a policy was adopted in our planning, that this concept has played havoc and that we have to live in a continuous state of inflation because of this wrong assumption. It has been one of the major causes of the growing poverty in the country, because the ordinary person finds that his limited financial resources lose value for no fault of his, by continuous rising prices, making his life more and more miserable at every stage. Whereas in theory the Policy Statement wants to avoid deficit financing, it has already formed an important part of the first two budgets of the Janata Government which is very unfortunate.

Policy in Action — The Budget for 1978-79

Unfortunately, we find that the budget in its effort to do a few things in line with the Janata Economic Policy, such as some more expenditure for rural development and small industries; some provision for increased irrigation facilities and power resources and so on, has found it necessary to impose heavy taxation mostly excise duties (Rs. 550 crs.) and also provided for heavy deficit financing of Rs. 1050 crs. It may be pointed out that most of the State Governments are going in for deficit budgets, which will mean that they will resort to unauthorised overdrafts, which will add to the deficit financing of the Centre. In spite of some proposed measures such as sale of gold to obtain some rupee resources, it is not easy to see how the deficit financing will be substantially reduced. The heavy excise duties of more than Rs. 500 crs. some of which fall on ordinary requirements such as electricity and coal, plus the effects of deficit financing, are bound to raise prices, in spite of the defence of the Finance Minister to the contrary. There is school of thought in the country which has been pressing for some time before the budget, for deficit financing and arguing that it will be possible to do so in view of the large exchange reserves that we have without adverse effects. They have not realised that this Keynesian method of deficit financing is not at all suited to a developing country like ours for long term development. They have not taken note of the fact that such a policy adopted for planning so far has resulted in continuous rise in prices and the inflationary situation in which we have lived for the last so many years has been one of the causes of increasing poverty in the country. Such a policy is self-defeating because though it is adopted in the name of development, it becomes the development only of the few richer classes, and succeeds in adding to the number of the poor. Each dose of inflation pushes those on the margin below the poverty line increasing the number

of those who are in misery. In other words, the object for which the policy is adopted viz. development has quite a contrary effect of adding to poverty, whereas the Janata Economic Policy wants removal of poverty. Without going into details, we may say in brief that on this basic consideration, the Janata Economic Policy is in reverse gear, so far as the budget for 1978-79 is concerned.

The Draft Plan, 1978-83

Efforts have been made to introduce some of the Principal features of the Janata Policy in the Draft Plan, such as larger outlay for Rural Development, Irrigation and power as well as Small Scale Industries and so on. This will mean greater responsibilities for the States, as the new programme fall within the sphere of the States. The machinery for implementing the same has to be created as the existing bureaucratic machinery has failed to do work properly so far. Besides the time and effort required for this enormous task, it is imperative to enthuse the States in the acceptance and willing implementation of the new programme. It is not yet clear how far this can be achieved in view of the political situation in the country and the insistence of a good number of States for financial autonomy.

One of the most unfortunate parts of the Draft Plan is the provision of deficit financing as a Resource to meet the proposed expenditure. This will be self-defeating. The suggestion has been made that there is considerable room for reduction in public expenditure, both of Government and of Public Sector Undertakings which are invariably overstaffed and under-worked. A high level Public Expenditure Commission is needed to weed out the wasteful expenditure and release resources for development, which will make it unnecessary to impose additional taxation or have deficit financing. There is mild acknowledgement of this serious problem in as much as the Departments have been asked by the Union Finance Ministry to introduce economy and reduce expenditure on staff. The Time has come when there should be greater firmness in dealing with the problem and promptness in taking the necessary action. This will inspire confidence in the capacity and efforts of the Janata Government to enforce financial discipline at all levels.

The Plan Model

The above arrangements in the budget are made as part of the first year of the New plan, in which it is argued that the Janata Economic Policy is translated into practice. Though the strategy of the plan is to implement the Janata Economic Policy as far as possible, we have the capital budget for 1978-79 which should be taken as the first year of the next plan. It is

assumed that the Finance Ministry must have taken advance action on the basis of the draft plan. Though some additional provision for rural development and allied things has been made as referred to above, it is not easy to find any fundamental change in the technique of planning which seems to have followed the existing model. The techniques so far have been based on the Mahalanobis Plan Frame of 1956, which was based on what may be described as the Heavy Industries Model. As the Janata Economic Policy is anxious to reverse the trend in favour of Agriculture, removal of poverty and greater employment, one would have expected that they would change the technique in favour of the wage Goods Model, which means that the emphasis should be mainly on food and other essential articles so that it may be possible for the rural people to have not only food and other essential articles for their own consumption, but also have a marketable surplus with the help of which they can buy other goods. Such a process would have created demand for industrial goods and helped industries-small and large. This simple concept of inter-dependence between rural and urban life should have been emphasised in the plan which would have made it easy for the villagers to appreciate and be convinced of the efforts of the Janata Government towards their welfare. This would have been at least one important effort to strike the imagination of the village citizen in the direction of the Janata Economic Policy objectives in practice. It is to be hoped that the statement in the policy that man would be in the centre of planning will not be forgotten, and would be prominently borne in mind as suggested above.

Income Policy

One suggestion may be made, which is yet not too late for adoption. The Boothalingam Committee was expected to work out an Incomes Policy calculated to remove disparities in incomes and create a more balanced arrangement in the economic relations of different groups in our Society. In order that such a policy can take shape, it was essential that simultaneously with the appointment of the Boothalingam Committee, an Ordinance ought to have been promulgated freezing all incomes, wages, dividends, profits, interest, rent etc. for some time. This would have reduced the price level, brought much relief to the unorganised majority who are poor, would not have come in the way of organised workers as their real income would have increased and would have paved the way for the implementation of the recommendations of the Boothalingam Committee. We have on the other hand continuous large payments to the organised sector in the form of Bonus and D.A., leading to demands from all types of industrial workers, Bank Staff, LIC Staff, Government Staff, University Staff etc. for monetary rewards with less work. All this had led to unrest and contributed to higher prices and less production making the Boothalingam report obsolete before it was published. This shows that firm action of a

nature which can strike the imagination of the ordinary citizen and convince him of the good intentions of the Janata Party in the economic sphere is necessary as a first gesture. Such an action would have made it easy for the common man to realise that it was desirable to wait for the other long term measures which the Janata Party has promised. The credibility of the party would have been enhanced. The absence of such a firm decision to remove disparities has led to an explosive labour situation which may come in the way of the implementation of the Janata Policy if not dealt with in time.

We propose to consider in some detail the more important developments that have taken place in Rural Development and Industrial Policy.

I. RURAL DEVELOPMENT

(A) Block Level Planning :

It is proposed to deal with a few selected items on which some thinking and planning has been done recently or some action is proposed to be taken. We shall refer mainly under this heading to two topics — Block, Level Planning and Rural Credit.

The Expert Committee with Prof. M. L. Dantwala as the Chairman was asked to study this problem in depth. The Group has pointed out that the proposal of the Planning Commission to introduce Block Level Planning in 3500 blocks during the Sixth Plan period would be unrealistic and counter-Productive. The reason is that the Planning Machinery in several States particularly at the District Level was very weak; in some cases it was non-existent. The Group has therefore suggested that the Planning Commission should have a priority list of districts on the basis of intensity of backwardness and should decide as to the agency to which the Block Plans should be submitted for approval. The Planning Commission should also ask the State Governments to undertake and complete preliminary action such as the basic record of rights in land, radical reorientation of the existing institutions for the provision of credit, marketing and supply of inputs to the weaker sections in the rural areas. According to the Group it would be better that Block Level Planning should start in the first year with only 100 blocks with a target of 500 such blocks for the sixth Plan period.

In spite of this recommendation of the Expert Group to go slow with the Block Development Planning, the Union Cabinet has taken certain decisions regarding full employment in the middle of September according to this decisions the earlier scheme under which 2000 Community Development Blocks were to be covered by various schemes to achieve full employment by the end of the Sixth Plan is now proposed to

be broken up into two parts. It is now proposed that 1000 of the blocks should achieve full employment by the end of March 1981 itself. These 1000 blocks would be allotted at places of concentration of scheduled castes. The steps will be to improve agricultural techniques, setting up of small scale and cottage industries, development of animal husbandry and construction of rural roads.

Drinking water facilities in 1.5 lakh villages where there is no such facility is advanced to the end of March 1981 instead of March 1983 as provided in the Sixth Plan. The necessary fund will be released. The Cabinet was of the opinion that finance should not be a constraint in achieving the target.

Regarding House sites it was decided that they should be provided to the poor even by acquiring private land. Regarding educated unemployed, the Cabinet was satisfied with the achievements of commercial banks in providing finance under self-employment scheme. It was however felt that the banks should advance not only for small scale industries but also for trade and services. The Prime Ministers and others met the bank chiefs for the purpose.

It is obvious that the Government is anxious to achieve results as soon as possible. As pointed out earlier in the text, the results will depend on the work of the States who will be incharge of implementation of the of the scheme. At the same time, the Committee on Panchayat Raj under the Chairmanship of Dr. Ashoka Mehta has, among other things, recommended open participation of political parties in Panchayat Raj affairs, as this may ultimately convert their mutual competition into constructive co-operation for rural development. According to the Committee, it is the obvious choice for being treated as the first point of decentralisation below state level. The need for an institution to provide popular participation has also been underlined. It envisages 'mandal panchayats' consisting of a cluster of villages and covering a population of 15,000 to 20,000. It has thus favoured a two-tier system of panchayatiraj.

Though the object of decentralisation must be pursued, it may be too early to put the above idea into practice, as the Panchayats are not working satisfactorily due to political intrigues as pointed out by the Dantwala Study Group.

(B) Rural Credit :

According to the report of the National Commission on Agriculture, gross credit requirements of agriculture to be met from institutional sources by 1985 are estimated at Rs. 16480 crores; this estimate is likely to go up

further in view of the Government programme to earmark 40% of the total plan outlay for agriculture and rural development. Considering the magnitude of the task and the area to be covered, it is clear that no single agency can satisfy all the credit needs of the agricultural sector. With different credit institutions, namely, the cooperatives, commercial banks and the regional rural banks, functioning simultaneously in the field of agricultural credit, certain problems have surfaced hindering the efficient disbursal of credit.

Multi-agency approach to agricultural financing is now an accepted fact in view of historical factors in the evolution of our institutional agricultural credit system and of the vast and growing gaps in agricultural credit. At present, we have two major components institutional agricultural credit system, namely, the cooperative components consisting of the primary agricultural credit societies, central banks and apex banks, farmers' service societies, large-sized multi-purpose societies and land development banks : and the component consisting of scheduled commercial banks and regional rural banks (purveying credit to agriculture directly or through cooperative).

The Committee on Regional Rural Banks (Chairman : Prof. M. L. Dantwala), in its report submitted to the Reserve Bank, has opined that the RRBs should be made an integral part of the rural credit structure. The assessment of the overall performance of RRBs as made by the Committee reveals that within a short span of time the RRBs have demonstrated their capability to serve the purposes for which they were established. The superiority of RRBs as an agency of rural credit over the rural branches of commercial banks is derived from their relatively lower cost of operation, simplicity and low profile, local participation in management, feel and familiarity of local staff, and close association of the district-level agricultural and rural development agencies and personnel. Pointing out that the RRBs are well suited for the purpose of filling the credit gap in the rural sector, the Committee observes :

“The Committee is definitely of the view that the RRBs with some modifications in their organisation and functions can become a very useful component in the totality of the rural credit structure. In fact, we are convinced that such an institution is needed to make good some of the inadequacies in the existing rural credit system. The RRBs can make a substantial contribution towards improving the quantity of credit flows to the rural areas by becoming an integral part of the rural credit structure.

The co-operative credit structure will not be disturbed at the base level. We assume that the reorganised primary agricultural credit societies (PACS)

and farmers service societies (FSS) wherever they can be effectively organised will constitute the base of the rural credit structure. We are fully aware of the weaknesses and shortcomings of the PACS and also of the fact that strenuous efforts made over the past almost two decades to put them on a sound footing have not yielded expected results. Yet we are firmly of the opinion that there are no shortcuts to strengthening the co-operative credit structure at the base level."

At least 4500 new bank offices will be opened over the next three years in the rural and semiurban areas under the 3 year comprehensive bank branch expansion policy formulated by the Reserve Bank of India.

The policy has been framed in the light of the recommendations made by the James Raj Committee on the functioning of public sector banks, the Dantwala Committee on regional rural banks and the Kamath working group on the adoption of multiagency approach in agricultural financing.

It seeks to ensure (a) the opening of more bank offices in the rural areas of underbanked regions (b) larger involvement of banks in district development activities and (c) an increasing flow of credit to weaker sections.

Establishment of new Regional Rural Banks (RRBs) and expansion of the branches of existing RRBs will be encouraged wherever the need for such agencies is felt. In order to identify the areas where new RRBs could be established, a district wise study is proposed to be conducted, priority being given to district having weak commercial and co-operative banking structures.

RRBs have so far been sponsored by commercial banks. In order to develop a closer linkage between apex cooperative banks and RRBs, wherever possible, joint sponsorship of RRBs by apex banks and commercial banks will be encouraged.

Agricultural Refinance and Development Corporation :

A fund of a crore of rupees is being created by the Agricultural Refinance and Development Corporation (out of the net profits of Rs. 3.75 crores earned in 1977-78) to support research-cum-action projects in rural development, to assist member-banks in strengthening their capabilities for project preparation, monitoring and evaluation, and to promote research in areas of interest to the Corporation.

The notable features of the year under review are (1) for the first time the commercial banks surpassed the state land development banks and state cooperative banks in terms of sanctions, accounting for 58 per cent of the

total refinance sanctioned by the ARDC, and (2) 47 percent of the total disbursement under minor irrigation and 57 per cent under diversified schemes (excluding farm mechanisation, storage and markets) were to the account of small farmers. The Union Government has decided to extend capital subsidy scheme for small farmers and agricultural labourers to areas outside the SFDA and MFAL jurisdiction and appealed to all member-banks to avail of this facility and improve their reporting system so that the small farmer was served better in future. In this connection, we may refer to the Five-year perspective lending programme drawn up by the Corporation which envisages a disbursement of Rs. 2,695 crores during 1978-83. In physical terms, the Corporation was expected to bring nearly four million hectares under minor irrigation and help achieve ambitious targets under a variety of activities such as horticulture, plantations, forestry, markets, poultry, piggery, dairy, sheep rearing and fisheries. The above observations from the Annual Report of the Corporation show the new trend.

(C) Irrigation :

(1) River Disputes :

The river disputes regarding the Narmada waters was settled by the Tribunal set up in 1969. The States involved are Gujarat, Maharashtra, Rajasthan and Madhya Pradesh. The way is now clear for the speedy implementation of the various projects of the Narmada which would bring 5 million hectares of land under irrigation. The production was estimated at Rs. 900 crores per year and the rate will increase when the irrigation potential is fully developed. Besides irrigation, electricity will also be available. The following table indicates the new resources :

State	Utilisable quantum of water.		Electricity Produced	
	Million acre feet (MAF)	%	MW	%
Madhya Pradesh	18.25	65	256.5	57
Gujarat	9.00	32	72.0	16
Rajasthan	0.50	2	-	-
Maharashtra	0.25	1	121.5	27
Total :	28.00	100	450.0	100

The Chief Ministers of Bihar, Orissa and West Bengal signed an agreement on 7th August regarding sharing of water resources of Subarnarekha river. The agreed division is given in the table below :

State	Utilisable quantum of water		Electricity Produced	
	Million acre Feet (MAF)	%	MW	%
Bihar	3.47	62	2.42	39
Orissa	1.49	27	2.83	45
West Bengal	0.60	11	1.01	16
	5.56	100	6.26	100

(2) Garland Canal Scheme :

The Union Government is understood to have asked the Food and Agriculture Organisation and the World Bank to send a team of experts to make an 'in-depth study' of the now famous Garland Canal project of Capt. Dinshaw Dastur. Capt. Dastur spent four decades and a lot of money in preparing the plan. When implemented, in all 216 million hectares of land can be irrigated against the world's present total irrigated area of 200 million hectares. Floods and drought will be a matter of the past.

The salient features of the project are :

It forms two major canals – the Himalayan Canal and the Central and Southern Garland Canal.

The Himalayan Canal begins at Ravi-Sutlej and skirts the entire Himalayan range connecting Ganga and Brahmaputra. It joins the sea at Chittagaon, maintaining a zero bed level.

The Central and Southern Canal, starting at the centre of the central plateau, descends on both the sides to further south encircling the Deccan and southern plateaus and joins up at somewhere north of Kanyakumari.

The transfer and distribution of water will be done purely by gravity as the upper canal flows at 1200 feet above sea level and the southern at 1000 feet above sea level. They are connected by pipelines and an old river course in Rajasthan.

The Garland Canals thus formed will be able to store 480 million hectares-feet water out of the 542-odd-million-hectare-feet surface flow available at present.

Coming to the cost aspect, an amount of Rs. 15,000 to Rs. 17,000 crores will be required with three-to-four crore people employed simultaneously to see the fruits just within five years, according to Capt. Dastur. The entire project shall be handled by a land army.

The transport problem will be solved as the sea can be brought to the land-locked Himalayan region. Nepal and Bangladesh will also benefit from the scheme.

With an unlimited hydro-electric power, many industries - free of pollution - can be started, thus providing more jobs. Apart from this, agriculture and its allied industries will prosper.

The rapidly receding Himalayan snow line is mainly responsible for the seasonal flash floods in several northern States, according to Capt. Dastur.

II. IMPLICATIONS OF JANATA INDUSTRIAL POLICY

Reservation for small units :

There is some confusion in the public mind regarding the outlook and attitude of the Janata Government regarding their Industrial Policy. The objective of developing small scale industries particularly in rural and backward areas with a view to creating more employment will be generally accepted by all who are interested in the development of the country. The difficulty arises when the ways and implementing such a desirable policy are considered. It seems that all relevant aspects of the problem have not been properly examined from all points of view, and a situation has been created which has led to widespread impression that small scale industries will be developed at the cost of large scale units, bringing about a confrontation between the two. For example, a large number of commodities have been reserved for production by small scale industries. The figure has been raised from 180 to 500 and recently to 807. It is not clear whether a careful scrutiny has been made of this list of 807 commodities which large units will be prevented from producing. Will the industries be dismantled? If so would it not involve a national loss of so much fixed capital? Would not such a policy lead to scarcity of some of these commodities, if the small scale industries are not able to fill the gap caused by the above process ?

Financial facilities :

So far as financial facilities are concerned, it has been laid down that priority will be given to small scale industries so far as credit is concerned by banks. As the resources of banks are limited for this purpose, the larger units will be asked to find resources of their own as far as possible.

* In other words, their credit supply will be restricted. The state of financial institutions in large units will be limited to 25 per cent – both equity and loan. Besides, the theory of Concentration of Economic Power is utilised to deal with the so called large houses by proclaiming that they should be split up. The assumption is that the assets in terms of financial figures of top large houses having increased, they appear bigger, and bigness is considered a crime in our country. The economists in Government do not seem to have drawn the attention of the Ministers concerned to the elementary fact which a junior student in Economics should know that under conditions of inflation, financial data are not comparable over time, unless the necessary allowance for the fall in the value of the rupee is made. Conclusions based on such ignorance are thrown about with official authority creating nervousness all round. The consequent uncertainty has made it difficult for the entrepreneurs to plan ahead and to go in schemes of development – existing or new. Whereas spokesmen of Government use data to show that the investment climate is favourable, they ignore the fact that uncertainty of Government policy due to the above causes is an intangible, but powerful factor, which undoes the effect of all other factors which may appear favourable to them.

Family Houses

The attack on family houses is also of a similar nature. It ignores the fact of history as well as of certain basic features of our Industrial Structure. It was certain enterprising families who were responsible in taking up to themselves the adventure and risk of starting modern industries in the country. Some of them had the vision and the outlook for the purpose, though not necessarily modern management and technical training. For example, Jamshedji Tata, Lala Shri Ram, Ambalal Sarabhai did pioneer work; their education was perhaps upto the matriculation stage. Among such persons who are with us we mention G. D. Birla and Kasturbhai Lalbhai whose education is also upto the matriculation stage. They have in their turn trained in their own way young men in their families and others to take charge of the concerns that they have built up with success, though some of them have modern training. It should be pointed out in this connection that when people talk of family houses versus Professional managers, they do not seem to be clear regarding their objective. It is possible to find cases of persons running family concerns who are highly competent as Managers, whereas a professionally trained persons may prove to be ineffective. There are also cases of a good number of people trained in modern management who are employed in several business and industrial houses as show pieces; they do routine work and do not have the opportunity to utilise their knowledge. The contrast is not between the

family houses and professional managers. What should be determined is whether a particular industrial house is managed efficiently without reference to its family connection or management training. If it is conducted efficiently, there should be no objection. If however, houses of either category are found to be defective and not conducted in national interest, they should be dealt with on merit. Cases of gross inefficiency or of corruption may occur in both types of houses. Such characteristics are not necessarily those belonging to family houses as can be seen by an examination of our industrial structure. The experience of other countries also proves the same. Whereas the Government is justified fully in utilising their powers to locate weaknesses in the conduct of industrial affairs and deal with them as may be necessary, to generalise that all family houses are the bane of the country and should be dispensed with or dismantled show ignorance of the real situation and is likely to come in the way of the growth of the country.

District Industrial Centres :

It is good to know that the Government has planned District Industrial Centres which will be easily accessible to those who want to develop small scale industries and will provide at one place the necessary guidance, facilities and permits for the same. This sort of organisation is being put through rapidly, and shows the dynamism of the Industries Minister, but such dynamism may involve undue haste; and haste is usually accompanied by waste. The question is whether those in charge of the District Industrial Centres are equally enthusiastic for the work, and whether they are adequately trained for the purpose. Assuming that the District Industrial Centres are well equipped for their work, it is not known whether there will be a reasonable number of new entrepreneurs in each district to utilise the new facilities. It is possible to create the infrastructure of the District Industrial Centres, though it has its own difficulties, but it is not possible to create young entrepreneurs equally quickly to utilise the facilities. A person who wants to start a small scale industry should either have the capacity to manage it or to run it on the technical side or preferably both. He should have the necessary initiative and capacity for hard work and perseverance to overcome the many hurdles, which may have to be faced before success is achieved. Such persons are not easy to find nor easy to create by training.

Sickness in small industries :

In support of these remarks, we may point out that under the existing arrangements in the country, small scale industries are given considerable assistance by State Governments, through several agencies including State

Financial Corporations. If information is obtained from State Financial Corporations of the various States in the country regarding the State of affairs of small scale industries that they have financed so far, we would get astonishing results. It is known that a large number of small scale industries are sick; some of them have been closed and some are working at a loss. The arrears of the State Financial Corporations run into crores of rupees. Except in Maharashtra and Gujarat where the arrears are less than 10 per cent, in other States, they vary from 14 to 25 per cent; in Assam 47 per cent of the units to which the Assam State Financial Corporation has given loans are in heavy arrears. Most of these arrears may have to be written off. This shows that the experience so far of finding suitable persons to utilise the facilities is not encouraging, and considerable loss is incurred in the effort by existing agencies at the cost of the taxpayer. The Janata Government has to be careful in implementing their policy through District Industrial Centres, by seeing that the above story is not repeated, because it is the tendency of officers in their effort to please Ministers to advance loans to undeserving persons to make out a case of their performance, though the actual results may come only in due course.

Intermediate Technology

We have been talking of Intermediate Technology suited to small scale industries in the country. The nature of such technology will differ from industry to industry. It is not known whether our highly equipped technological institutions and laboratories have found suitable intermediate technology, which can be easily adopted by the new entrepreneurs who are to be spoon-fed by the Government.

Rural Development by Industries :

Instead of creating a situation of confrontation between small scale and large scale industries, it is desirable and possible to have a structure of inter-dependence and co-existence, because we have unlimited scope for development both of large scale and small scale units. It is wellknown that a climate has been created by propaganda in the name of social responsibility of business, which has resulted in industrial houses undertaking schemes of rural development with their own resources. Barring exceptions, the question may be asked whether industrial houses, which may be quite competent in their own work are competent to do rural development work which is essentially different ? The management techniques and the technological expertise of industrial houses may have very limited scope for rural development. Yet, in order perhaps to fall in line with the desire of the Janata Government a number of commercial bodies including the Federation of Indian Chambers of Commerce and the

Associated Chambers of Commers have organised rural development schemes and are encouraging their members to undertake the same.

It is an elementary principle of economics that each of us should do work for which he is best qualified. In order to maximise results, this principle has to be accepted. The large units may do some good in rural development, but they can certainly do much better, if they are encouraged to help in the development of small scale industries, because they will be more at home in that work with which they would be quite familiar. The whole concept seems to have been adopted in a hurry and national resources are going to be diverted to less effective channels by the proposed method of rural development by industrial houses. Their capacity to help small scale industries is ignored and they are asked to create new capacity for rural development for which they are not ready, but towards which they are willy nilly drifting. In the interest of maximum results for national advantage, it is desirable to turn the screw and ask large scale industries to adopt certain areas or certain industries of the small scale type and help them by technical advice, marketing facilities. and in other ways to develop some of them would be dependent on large scale unite if they are ancillary industries. This natural cooperation and inter-dependence must be emphasised and encouraged and not overlooked in the manner in which it is being done in our country.

There is consciousness of the need for an integrated policy. The Prime Minister seems to have realised that compartmentalising of different types of industries, village, small and large, is not desirable and cooperation between them is called for, in order to devise practical schemes of such cooperation, he has asked the Federation of Indian Chambers of Commerce and Industry and the Associated Chambers of Commerce and Industry for their views and suggestions to translate the idea into practice. It is hoped that such pragmatic approach will be adopted in the interests of the country and not the threats of the Industries Minister to nationalise more industries and expand the public sector, which needs considerable improvement to prevent the large losses from which it suffers. The Government should not indulge in the luxury of expanding the public sector at the cost of the taxpayer; it must make it pay so that adequate resources can be found from it for development, instead of additional taxes, which fall on the poor, as most of our taxes are indirect and therefore regressive in effect.

Multinational concerns :

Some questions may be raised regarding the policy of the Government with reference to Multinational concerns as well as with reference to Indians establishing joint ventures in foreign countries, thus developing Indian

- **Multinational.** Under the FERA Regulations, Multinational concerns in the country are diluting their equity. As a rule, they are allowed to retain 40 per cent; the remaining 60 per cent is to be distributed among Indian shareholders. In practice, the Indian shareholding is widely dispersed because the Government encourages small holdings of shares in different parts of the country, which suits the Multinational companies. The scattered small shareholders of any such company are not interested in the control of the company but only in dividends. The Multinational company is able to continue its control inspite of the reduced 40 per cent equity that it holds, of increased capital. Though the object is to reduce the hold of Multinational companies on the product as well as the economy of the country, the objective is not achieved. It is known that there is a craze for investment in these companies, as their shares are usually over-subscribed several times. Because of the frequency of such subscriptions in recent times, the savings of many people who go in for these shares are locked up for a long time. They have to wait for a lottery chance to get these shares and in most cases they get the money back after several months. This goes on repeating because almost every month one or two such companies are in the market. The consequence is that the availability of savings for investment in new Indian companies is reduced. Spokesmen of Government have talked of an improved climate for investment in the country, but they have not realised that most private savings for investment are drawn away to such Multinational companies under FERA Regulations and are not available to new Indian enterprises. If new Indian Enterprises are to be encouraged, the way in which FERA Regulations should operate with Multinational companies will have to be changed without delay.

Indian Multinational ventures :

It is wellknown that we have started a system of establishing joint ventures in neighbouring countries particularly in South East Asia and now in the Gulf countries. The Government which was hesitant in the beginning has now decided to encourage this tendency. In fact, there is a move to protect such foreign investments by Indians and equity participation is also allowed. The question is whether the policy of the Government to prevent the expansion of large houses within the country has not led to the situation by which enterprising people are driven to find scope for their resources and talent in neighbouring countries. For example, Birlas asked for expansion of Gwalior Rayons to raise their capacity for Fiscose staple fibre by 40,000 tones a year for which there is a demand in the country. This is not allowed; they have therefore established similar plants in Thailand and Indonesia. They have also other projects in Malaysia and other countries. The same may be true of same other Indian entrepreneurs.

This leads to the creation of Indian Multinational concerns. Whereas the Government wants to control and regulate the activities of foreign Multinational concerns in the country, it has permitted some Indian entrepreneurs to create Indian Multinational companies in other countries. They may succeed in utilising our skill and give employment to some of our people as well as lead to some financial gain by the companies concerned earning foreign exchange. The point however is whereas in the case of Multinational companies coming from Western countries such as the USA, the situation is that the countries concerned are saturated with their production. They want an outlet for their surplus capacity. In our case, we are exporting our capacity inspite of the fact we have ample scope for more production and more employment within the country; we are exporting out of our deficit and this reduces our growth potential. If this analysis is correct, a complete revision of this policy is required, because the belief that we have large Monopoly Houses in the country whose activities should be controlled has led to this situation. In effect, according to the correct definition of the term we have very little of Monopoly. In order to get over this, the Government has adopted a new phrase of 'Dominant Undertaking's' which is defined as any undertaking which has control of 33 per cent of the market in the commodity concerned. The Sachar Committee has gone a step further and has defined a dominant undertaking as one which controls 25 per cent of the market. There is something very curious and paradoxical about our situation in these matters, not at all in the interests of growth and greater production as well as greater employment, which are our objectives and therefore a radical change is called for.

Concentration of Economic Power :

The Sachar Committee favours that the present restrictions relating to substantial expansion or setting up of new undertakings should continue to be made inapplicable to government undertakings because of the fact that there already exists public control over these undertaking and the question of monopoly or concentration of economic power was totally irrelevant in as much as there is public ownership of such undertakings.

The Sochar Committee shows complete ignorance of the concept of concentration of economic power. It assumes that it is totally irrelevant in the case of public undertakings in as much as there is public ownership of the same. The Janata Economic Policy statement has pointed out that concentration of economic power is not desirable in the hands of the Government. Such concent ration can be worse than the one in the private sector; it is in effect in the hands of the few Ministers who wield power or may be only in the hands of the Prime Minister. We have seen

- how such concentration of economic and political power was misused during the Emergency; there should be effective provision against such misuse, even as it is desired to remove the misuse of economic power in the hands of the private sector.

(For Private Circulation Only)