CHAPTER I

THE BACKGROUND

India's attainment of her long-desired freedom on the 15th August 1947, makes a new epoch not only in her political history but also in her social and economic history. Freedom has brought in its wake the partition of the country and the grave communal disturbances with the result that there were large forced transfers of population unprecedented in recent history. Though the partition of the country was responsible for the maladjustment in the economy, the Cooperative Movement as a whole has remained comparatively unaffected.

Before examining the weaknesses in the economic structure and suggesting measures to remedy the situation, it would be necessary to analyse in brief the various contributing factors, the geographic, social, economic that affect the economy of the country.

The Geographic Background:

The Indian Union comprises of an area of 1,22 million square miles covering a distance of more than 1500 miles from the north to the south and 2,000 miles from the east to west. The Union within this area maintains near the margin of subsistence a population of
362 Million people, a large proportion of which is burdened with debt, is underfed and miserably poor. Such as it is in its varied natural resources and man-power, it is obviously over-populated in relation to the "whole set of facts".

The Indian Union by itself forms a geographic unit. It lies entirely to the north of the equator and is situated between the latitudes 8° and 37° and longitudes 62° and 97°. The tropic of cancer passes right through the country roughly cutting it into two halves. The Union is situated in the very centre of the Eastern Hemisphere and as such, enjoys a highly favourable geographical position for purposes of international trade.

The Indian Union lends itself into three distinct natural regions. First, there is the northern region covered by the mountainous ranges of the Himalayas which overlook the Gangetic plain and exercise a dominating influence both on weather and vegetation of the country. Secondly, there is the Indo-Gangetic plain consisting of alluvial deposits lying between the northern Himalayan region and the Plateau of the south. The land drained by this region is alluvial and forms one of the most fertile regions in the world. Thirdly, there is the Deccan Plateau marked out from the rest of the country by the Vindhyas. The famous black cotton soil is spread over most of this area.

India presents a greater variety of climatic conditions than many other parts of the world. As one travels from the south of the country northwards, the climate varies from tropical to semi-tropical and
temperate to northern extremes. In the extreme east, the climate is wet and damp leading to a comparatively low tone of health and general physique. The distribution of rainfall shows no less marked disparity between the various parts of the country. It ranges from a few inches in the arid tracts of Rajasthan to the heaviest rainfall in the world in Cherrapunji in Assam. In between, there is a comparatively dry region running along the "rain shadow" behind the Western Ghats stretching from northern Madras to Central India. Except where irrigation has introduced a stabilising influence, the agriculture in the country is mostly dependent upon the fickleness of monsoons.

In 1950, the Indian Union had an area of 266 million acres of net area sown out of the roughly estimated 611 million acres of the geographical area of the country. The scarcity of water due to variable and uncertain rainfall acts as a deterrent factor on the extension of the cultivated area. The net irrigated area during the same year was 52.3 million acres. The cultivated area under cereals was 193 million acres, under gram and pulses, 18.7 and 28.5 million acres respectively. The cultivated area
under cotton, jute, sugarcane, tobacco and oilseeds was 14.56, 1.45, 4.21, 0.9 and 31 million acres respectively in 1950.

The bovine population of the country is estimated at 180 million cattle and 40 million sheep. In an agricultural country like India, the usefulness of cattle is manifold; as for example, for milk and milk products, for drought purposes, as a source of natural fertilisers and for hides and skins. What we want today is the quality and not the quantity of cattle. Facilities for selective breeding, adequate supply of fodder and better sheds for shelter will go a long way to improve the quality of cattle.

"The known mineral resources of India, though limited and by no means inexhaustible, are not inconsiderable and encompass a sufficient range of useful products that are necessary to make a modern civilised country of the size of India more or less industrially self-sufficient". India produces more than 32 million tons of coal, 1/3 of of the world's production of manganese and more than 3/4 of the world's production of mica. She has an exportable surplus of iron ores, mica, manganese, gypsum, refractory minerals, monumental granite and natural abrasives. She is

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1 D.N. Wadia while presiding over the Annual Meeting of Mining, Geological and Metallurgical Institute of India in Calcutta on 25th January, 1952.
self-sufficient in her requirements of coal, glass, sand, gold, building materials, alum, aluminium, sodium salts and marble but has to depend upon foreign countries for her needs in sulphur, copper, tin, asphalt, nickel, lead, mercury, platinum, potash, petroleum, zinc, graphite and fluorides.

Forests often described as the "handmaiden of agriculture" cover 33 million acres of land, or 15 per cent of the total area of the country. It is estimated that in the interests of agriculture and irrigation forests should cover 20 per cent of the total area of the country. The Planning Commission have provided Rs. 11.7 crores for the development of forests under the First Five Year Plan. The diminution of forests affects unfavourably the quantity and distribution of rainfall, causes floods and endangers agriculture. In addition to being a source of revenue to Government, forests render the climate more equable, absorb excess water during heavy rains, preserve the fertility of the soil by storing water and help in the establishment of subsidiary industries using forest products.

In India, where there are vast regions of the country entirely dependent upon rainfall, the importance of irrigation works for the development and prosperity of agriculture cannot be underrated. In recent years with the deepening food crisis and rising population there is a

nationwide awakening to the need of planned utilisation of water resources to expand in great measure the produce from land. Under the Five Year Plan a provision of Rs. 661.41 crores is made for irrigation and power and as a result it is expected that an additional area of 16.9 million acres of land will be brought under irrigation, making a total irrigation area under cultivation of 65.6 million acres. Various development schemes undertaken by the Central and State Governments will increase the production of 4.3 million tons of food grains and generate cheap electric power useful to the development of adjoining rural and urban areas. The per capita consumption of electricity in India hardly exceeds 15 k.w.h. The supply of electric energy is likely to rise by 50 per cent on the implementation of the irrigation and power projects under the First Five Year Plan.

The Social Background:

The social environment of a country affects its economic activity to a great extent. The multiplicity and diversity of the Indian caste system and social and religious institutions exert no small influence on the economy of the country. The social life of India has been predominantly marked by three institutions, namely, the caste-system, the joint-family system and the traditional self-sufficient village. The caste system is the most outstanding feature of the Indian social life. Hindu society to-day is divided into various castes and sub-castes. It is the individual within the caste
and not in isolation that is counted in the social stratification. In the words of G.S. Ghurye, "castes were those groups with a developed life of their own, the membership whereof, unlike that of voluntary associations and of classes, was determined not by selection but by birth." Strict endogamy is regarded as the "very essence of the caste system." Except in large towns, inter-dining, inter-drinking, marriage and social intercourse are restricted to the group which is endogamous.

The caste system organised on a functional basis corresponded to four occupational groups, the brahmans (the priests and teachers), the Ashtriyas (the rulers and warriors), the Vaishyas (the traders) and the Sudras, the agriculturist class. This division of labour was designed to achieve maximum of social efficiency and harmony and was a great cooperative system in the sense that each group looked to the needs of its members. But with the passage of time, unfortunately, the cooperative spirit has given way to endogamous groups; "membership by choice has gone and membership by birth has come; brotherhood has been replaced by indifference if not hostility and jealousy; harmony has given place to feud."  

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Instead of a healthy, wholesome and non-communal outlook in the practical affairs of life there has developed a fissiparous tendency among the groups and castes to such a great extent that everywhere one comes across communal charities, hospitals, boarding houses, scholarships, conferences and even communal cooperative societies.

Another characteristic feature of the Hindu society is the joint family system. From ancient times the typical joint Hindu family consists of a father, his sons and grandsons and daughters with several collaterals constituting a single household. It is a joint family not only in the field of private property but also in matters of food, clothing, shelter and worship. The senior-most male member of the family has a final voice in the affairs of the family life. Such a family guarantees the minimum of subsistence to every member of the household whether the person is old or infirm, widow or orphan. The earning of all the members of a family are pooled together in a common fund and each is given according to his needs. The family becomes the very nucleus with its motto, "All for one and one for all."

The members of a joint family have the advantage of division of labour in their work according to their capacity and adaptability. During the busy agricultural season where there is dearth of agricultural labour in the villages, and children of the peasant family are employed in the fields. As long as the family is not disintegrated

1 G.S. Ghurye: Caste and Class in India, op cit. p.195.
there is economy in household equipment and subdivision and fragmentation of holdings into uneconomic units are avoided.

On the other hand, it has been said that the joint family system has subordinated the individual to corporate ends, individual initiative has been regimented and even suppressed by the conduct of the head of the family. The economic, social and religious conditions in the past helped the joint family to maintain its cohesion and solidarity for centuries. But with the opening of the interior of the country by means of the development of communications, such as railways, waterways and roads, with the influence of Western ideas and growing spirit of individualism the joint family system is being gradually disintegrated.

According to the Hindu law of succession the two systems, Mitakshara and the Dahyabhag prevail in the country. Under the Mitakshara system which prevails with slight local modifications all over the country except in Bengal, the ancestral property is enjoyed by all the male members of the family and the head of the family is simply the manager. Under the Dahyabhaga system the head of the family can dispose of the property according to his freewill. Women have no right to succession in either system. With the passage of the Hindu Code Bill, women will have a claim over the ancestral property. In the Muslim law, though there is provision for women regarding inheritance of property, in practice Hindu customary law is followed.
The absence of primogeniture in the Hindu system of inheritance and succession marks out the principle of equality and distributive justice. The system promotes the growth of a substantial middle class and small peasant proprietors. On the negative side, it affects adversely the rural economy by the division of land into small parcels, uneconomic for cultivation.

Hinduism is practised by more than 85 per cent of the population of the country. Among the other important religions practised in India are Islam, Buddhism, Jainism, Sikhism, Zoroastrianism and Christianity. Religion has always been a potent factor in influencing the life of the people of India. S. Radhakrishnan says, "it is a mistake to regard the Hindu religion as an obstacle in the path of India's economic progress. There has been no such thing as a uniform stationary unalterable Hinduism whether in point of belief or practice. Hinduism is a movement, not a position; a process, not a result; a growing tradition, not a fixed revelation."

According to 1951 census, India's population is 362.8 million. The majority of the population of the country, nearly 85 per cent lives in rural areas. Though the pressure of population on land is increasing day by day, the rural-urban ratio has remained fairly constant through these fifty years. The population of the country is increasing by leaps and bounds and at a cost which a country like India cannot afford. A rough idea of how destructive the growth of our population is, is borne out by the fact nearly one out of the four babies dies before it attains the age of 10. Our birth and death rates are also very high.

The birth and death rates recorded in 1949 were 27.6 and 16.4 as compared to 33 and 34 in the first two decades of this century. Due to an improvement in medical facilities, better control of epidemics and the general progress of medical science, the death rate in the country has recently gone down. In the present stage of economic development, we in India, are "too many in relation to the whole set of facts." Unless the growth of population that the country can well support, the standard of living of the people as a whole cannot be reached beyond the subsistence level. Family Planning will go a long way to achieve this.

Out of some two hundred and odd languages and dialects in India there are hardly more than a dozen which are really important. Hindustani is by far the language spoken by a large majority in the country. English, the most commonly understood language of the educated class is being gradually replaced by Hindi and the regional language of the country under the constitution and will replace English completely within 15 years. The pressure for the division of the country on linguistic basis in recent years has developed the spirit of provincialism and tension among the people of various States. Demands for a separate Andhra, Bengal and Maharashtra have created great tension during these days.

More than 80 per cent of the population of India are illiterate. According to figures available for 1951 only 18 per cent of the people of India can read and write.
in their mother tongue. The percentage of educated women is even lower.

State governments have in recent years launched schemes for compulsory primary education and night schools for adults. Compulsory free primary education is still remote for a majority of the children. Taking into consideration the vast population of the country, general illiteracy and insufficient facilities for education in relation to the needs, the sum of Rs.155.66 crores marked out by the Planning Commission to spend on education during 1951-56 is quite inadequate. In the Constitution there is a directive that "the State shall endeavour to provide within a period of ten years from the commencement of this constitution, for free and compulsory education for all children until they complete the age of 14 years." How far the States can put this directive into practice will be seen in years to come.

From ancient times to the advent of the British in India there were small village Communities or Panchayats spread over the country. Each village in the past was from the administrative, judicial and economic viewpoints an autonomous self-sufficient unit. These village communities through the organisation of Panchayats or the Council of Five were self-governing little republics scattered all over India under Hindu and Muslim regime and survived many dynasties and empires. As Sir Charles Metcalfe put it in 1830..." the Union of the village communities, each one forming a separate little State in itself, has, I believe, contributed more than any other cause to the preservation of the people of India through
all revolutions and changes which they have suffered, and it is in a high degree conducive to their happiness and to the enjoyment of a great portion of freedom and independence. I wish therefore, that the village constitutions may never be disturbed and I dread everything that has a tendency to break them up.

The Indian villages had evolved a well-balanced social, economic and political system eschewing the two extremes of laissez-faire and totalitarian control. As Mahatma Gandhi has put it, "the production was almost simultaneous with consumption and distribution", and the vicious circle of moneylender economy was conspicuous by its absence. There were generally two classes, the agriculturists and the artisans, one dependent upon the other. The agriculturists produced food and raw materials for the artisans and weavers and the latter in turn made good the requirements of the former, such as the supply of farm implements, pottery, leather goods, cloth etc. Money was not the medium of exchange and barter economy prevailed. Production was not for distant markets and generally whatever was produced was locally consumed. Surplus goods were at times disposed off at village fairs held periodically at prominent centres. The village was an isolated, self-supporting unit. Lack of means of communications fostered this solidarity based on the principles of communal living and a sort of community government was

developed in each village.

The administrative powers of a village were vested in the elderly and the wise men of the village who were selected from among the people themselves, representing almost every caste and vocation in the locality. A council of such men, mostly five in number, popularly known as the village Panchayat administered justice and peace, maintained order by watch and ward, provided facilities for education, sanitation and public works such as erection and maintenance of public buildings, roads, tanks, wells and settled disputes or acted as arbitrators. The Panchayat derived its finances from its own people and had little to do with the outsiders. It played a very useful part in the development of fellow-feeling and a corporate village life. The centralisation of authority of the judicial and administrative systems under the British rule, the opening of the means of communications, migration of the wiser people to the town and the revenue policy of the government led to the decay and disappearance of the pristine glory of the village communities.

There is a provision in the Indian Constitution for the renaissance and rehabilitation of the existing village panchayats with necessary modifications to suit modern conditions. Article 40 of the Indian Constitution reads: "The State shall take steps to organise village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government."
The Economic Background:

The place of agriculture in the Indian economy cannot be underrated in view of the fact that, this leading industry gives subsistence to more than 75 per cent of the population of the country. But while it is recognised that the economy of the country, as it stands today, is predominantly agricultural, there has not been an equally common recognition of the vastness and variety of agricultural problems that hinder our agricultural prosperity. It is only during the last five years, with the food crisis developing to such an extent that crores of rupees are frittered away in importing food-grains, that there has been nationwide awakening to the gravity of the problem.

The importance of Indian agriculture, arises not only from the fact that it furnishes the means of subsistence to the teeming millions of the country but also from the point of view of world agricultural production, India ranks as one of the leading countries. She leads many countries in the production of jute, cotton, groundnuts, tobacco, sugar, wheat, rice and millets. Despite this, the country has to import on an average not less than 3 million tons of food-grains to feed the people every year. The question of food supply therefore, forms the crux of our economic problem, and the Planning Commission have therefore provided Rs. 745.62 crores or about 36 per cent of the total expenditure under the Five Year Plan for development of agriculture and irrigation.

The conditions under which land is held in different parts of India have an important bearing upon agriculture. Though the State has recognised private right in land
ownership, in the final analysis, it is the owner of all the land in the country.

Prominent among the land systems of the country are the Ryotwari, the Zamindari and the Mahalwari. The Ryotwari system prevails in Bombay, Assam and most of Madras where the state deals directly with the peasant proprietor permitting him to deal with his land as he pleases provided he pays the fixed assessment. Where the land revenue is fixed in perpetuity and is paid by the landlord who collects the revenue on behalf of the State, the system is known as the Zamindari or Permanent Settlement. This system prevails in Bengal and most of Oudh. Under the Mahalwari system which is spread over the northern part of the country, land is held by the village community and the heads of the villages are held responsible for the payment of the revenue. On the other hand, a great deal of land is cultivated on the metayer or sharing system, the tenant paying for the cultivation and taking 1/3 or 1/4 of the produce and giving the remainder to the landlord, the latter paying the government assessment.

"The basis of assessment is defined under present arrangements in a variety of ways, as the net produce, the net assets, the economic rent, the rental value and the annual value." The incidence of land revenue also similarly, is different in different parts of the country. The Government has always denied the claim of peasantry that they were over-assessed. For the country as a whole, the calculated share of the net "assets" claimed by the government is

approximately 50 per cent. Provisions have been made by
the Government to exempt the peasantry from assessment
over the improvement from land that they have made in their
private capacity.

All these land systems have due to one reason or
another created vested interests in landlords, moneylenders
and merchants and helped in the dispossesion of the land of
the peasantry. The landlords or owners of land, not
cultivating themselves, have given over the land to the
highest bidder, with the result that the improvement of
agriculture is neglected. The insecurity of tenure discouraged
the tenant to make any improvement in the land. Landlords
hold more than 40 per cent of the land and have been described
by the Bengal Land Revenue Commission (1940) as "an incubus
on the working agricultural population ".

Subinfeudation is due to a large margin between the
fixed land revenue and the economic rent of the land which
has led to the emergence of a number of intermediate interests,
some-times as many as twenty, between the Zamindar and the
actual cultivator. The disintegration of the village economy-
brought about by the three main systems of land tenure,
together with this subinfeudation, fragmentation and
subdivision of holdings completes the vicious circle.

All these evils have moved the Government to enact
legislative measures for the protection of tenancy rights
of the agriculturists. Despite legislative enactments in
most of the States regarding alienation of land and security
of tenures, the government has comparatively failed to
achieve the goal. There is a directive in the Indian Constitution to abolish Zamindari as early as possible. State Governments of Bombay, Bihar, U.P. and Madras have taken steps in that direction.

The greatest obstacle in a drive for production is the smallness of agricultural holdings which constitute a limit to the possibility of the improvement of the land. The evils of subdivision and fragmentation of holdings are perhaps more prevalent in India than anywhere else in the world. Among the contributory causes to uneconomic units by fragmentation may be included the pressure of population on land, lack of alternative avenues and employment for the growing number of cultivators; laws and customs relating to the inheritance of property; laws and customs facilitating the transfer or sale of land without restrictions and social prestige attached to land ownership irrespective of the profits accruing from such rights of ownership.

The smallness of the area of a holding restricts the profitable employment of capital, superior implements, better cattle and involves waste of time, money and effort. The remedy lies in consolidating these uneconomic and scattered holdings either voluntarily or by compulsion. Steps have been taken in Bombay, Madhya Pradesh and the Punjab to consolidate small holdings into economic ones to provide the average family the minimum standard of living considered necessary.

1 Reserve Bank of India: Consolidation of Holdings (Reserve Bank of India, Agricultural Credit Department, Bombay, Bulletin 34, 1951), p.3.
The margin of prices prevailing between what the consumer pays for and what the cultivator gets for his produce is so great that it is possible to make facilities for the cultivator to reap a more favourable price for his produce. The factors that contribute to the depriving of the farmer for better prices are the ignorance on the part of the villagers, lack of financial resources to market his produce in the most economic way and at the most favourable time, his frequent indebtedness which weakens his bargaining position, lack of adequate financial facilities from outside which might at least mitigate the evils, dishonesty in weights and measures employed by the middleman and lack of adequate cooperation among the producers themselves to pool their resources and evolve a less wasteful scheme of marketing. Facilities to enable the farmer to overcome all these difficulties will secure for him better prices for the produce and induce him to work hard to increase production.

The emergence of agricultural labourers as a class who form an integral part of our rural economy may be traced back to the last decades of the 19th century. Increasing pressure of population on land, defective land system, subdivision and fragmentation of holdings, multiplication of rent-receivers, free mortgaging and transfer of land and lack of any profitable employment during the off-season are the main factors contributing to the growth of membership of this class. These labourers who are employed only during the busy season, underbid each other for employment with the

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result that they earn miserably low wages and remain half-starved. The average rates of wages for casual or seasonal agricultural men labourers in 1949-50 ranged between Rs. 1-15-3 and Rs. 2-2-7 a day in Assam; a little over Rs. 1 a day in Bombay, Bihar, Punjab, U.P. and West Bengal; and mostly below one rupee a day in villages selected in M.P., Orissa and Madras. No legal provision has so far been made for minimum wages for these labourers who are the mainstay of our agriculture.

In an underdeveloped agricultural country like India, the State has a much more important role to play in the development of agriculture. There had not been so far any consistent and comprehensive State agricultural policy for the country. The State has in the past occasionally helped agriculture in cases of emergency such as famines, droughts, floods and other natural calamities. It also helped agriculture to a certain extent by constructing and maintaining irrigation works, by providing credit facilities through Government and Cooperative Departments and lately through the Reserve Bank of India. It arranged demonstration farms to impart agricultural education and gave pecuniary help for research and propaganda. With the increasingly deteriorating food situation in the country after independence, the Government has earmarked substantial sums of money for agricultural and irrigation developments under the First Five Year Plan.

The yield of agricultural products per acre in India is perhaps the lowest in the world. In cotton, India's average yield per acre is as low as 80 lbs. compared with

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1 Commerce. 11th April, 1953 (Editor: S.V. Rayan) Vol.LXXXVI No.2200 Bombay, p.666.
150 lbs. of U.S.A. and 450 lbs. of Egypt. In rice the Indian average ranging from 750 to 900 lbs. compares favourably with that of Indo-China and Siam but is far below U.S.A.'s 1500 lbs; Egypt's 1918 lbs; Japan's 1713 lbs, and China's 898 lbs. The average yield of sugarcane per acre in India is much below that of Java and Hawaii. This result may be ascribed to lack of adequate finance, medieval technique of agriculture and the gradual deterioration in soil and soil erosion.

It is held in some quarters that the poverty of the Indian agriculturist is the result of his ignorance of effective methods of production. On the other hand, Dr. J.A. Voelcker held that "at his best the Indian raiyat or cultivator is quite as good as, and, in some respects, the superior of, the average British farmer, whilst at its worst it can only be said that this state is largely brought about by an absence of facilities for improvement which is probably unequalled in any other country, and the raiyat will struggle on patiently and uncomplainingly in the face of difficulties in a way that no one else would". If the Indian farmer is provided with the facilities that his counterpart in Europe or U.S.A. gets there is no reason why our farmer cannot show equally good results.

This is borne out by the fact that recently a few cultivators have grown record agricultural crops in particular farms and have secured government prizes for the same.

One of the greatest obstacles that impedes the prosperity of Indian agriculture is its entire dependence on

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1 J.A. Voelcker: Report on the Improvement of Indian Agriculture loc cit, p.11.
monsoon. The development of minor and major irrigation works are the only factors that will ease the situation. The climatic conditions, especially the scorching heat of the summer and damp and wet climate of the rainy season sap the physique and energy of the people. Among the other factors contributing to the low yield of agriculture may be mentioned the cultivation of inferior reclaimed waste lands, soil erosion, lack of improved seeds, manures and implements, unsatisfactory cropping systems and the conservative outlook of the agriculturists in general. With better methods of cultivation, cheap and adequate and controlled facilities of finance and irrigation, the outturn per acre can easily be doubled.

A majority of the Indian cultivating class remains unemployed for about 1/3 of the year during the off-season. This naturally means an enormous wastage of the manpower of the country. If these people are employed in cottage or small-scale industries their leisure will not only be fruitfully utilized but will also bring them subsidiary incomes and will foster in them a sense of self-help and incentive to work. A revival of the ancient Indian handicrafts will also give employment to the skilled but adversely affected artisans. The Planning Commission have recommended Rs. 27 crores for the development of cottage and small scale industries during the Five Year period of the Plan. This will ease the problem of rural unemployment to a certain extent.
As long as improvement is not effected in the field of distribution, measures taken to better the lot of the agriculturist through the provision of better facilities in regard to seeds, implements, manure, finance and subsidiary employment are not likely to help him much. Efficient marketing and better transportation facilities are other requisites to increase his income.

Widespread illiteracy among the cultivators induce their creditors, businessmen and the intermediaries to adopt unfair means in accounts and in general dealings. As long as the tiller of the soil is illiterate, the passage of numerous legislative measures to curb malpractices of the creditors are not likely to succeed. Though the illiterate peasants are not necessarily unintelligent, they become easy victim to outside exploitation. General education over and above the agricultural education by means of propaganda and demonstration will improve their present helpless situation. For the general education of the countryside public libraries, educational films, public lectures and wireless broadcasting are badly needed.

Whatever may be the definition of the standard of living it is generally accepted that millions of people in India are hardly able to satisfy even the necessities of life and there are few civilised countries in the world with such a low standard of life. If properly planned, handled and distributed, agricultural production which constitutes 47.6 per cent of the national income can create a multiplier effect in raising the standard of life of the people of the country.
More than 30 per cent of the population of India is normally underfed. The percentage is higher under conditions of drought and famines. There are cases in which even if people get enough food, they do not get the right kind of food, rich in nutritive contents. In India to-day, prevails a countrywide underconsumption leading to malnutrition and its attendant evils. This faulty and insufficient diet reacts unfavourably upon the "vulnerable groups" in which are included the expectant and nursing mothers, pre-school and school-going children and the student class among the adolescents. Necessary changes in diet and adjustment of agricultural production to nutritional requirements are absolutely essential under the existing situation. Money spent to increase the production, and consumption of milk and milk products, vegetables, eggs, fish, pulses, fats and oils and in the general improvement of diet will more than repay the expenditure incurred. As W.R. Aykroyd says:

"It is easy to conquer starvation or famines, but to conquer malnutrition and unbalanced diet which lead to the high mortality of the children and mothers and general predisposition to diseases will require coordinated planning in the spheres of agriculture, public health and nutrition for decades."

Some enthusiasts have suggested mechanization of agriculture to produce on a large scale and thereby to reap higher production and profits. It is unfortunate that these advocates forget the smallness of holdings in our country and even more important and serious problem of rural unemployment.

It is unwise to follow blindly the western countries where the conditions are entirely different. In the West there is shortage of labour while the abundance of unemployed labour causes grave anxiety to our country. We have not even sufficient material resources, nor are we rich enough to afford mechanical appliances for agricultural production. Scarcity of manpower and greater material resources have induced the Westerners to adopt mechanical processes.

One of the factors contributing to the poverty of the Indian agriculturist is the force of religious and social customs. The grip of social customs is so great upon him that he has to spend large amounts of money even at the risk of running into debts to observe his social and religious duties. The expenses on marriages, funerals and other social events call heavily on him and eat away his past savings, if any.

In India where the holdings are too small for economic cultivation the question of providing the cultivator with his requirements of capital and with guidance as to how it should be spent economically becomes one of crucial importance. Apart from borrowing for unproductive purposes such as to meet the social and religious obligations, the need for credit arises due to the inadequate income of the agriculturist to satisfy even the barest needs of life. The agriculturist is so much indebted that a despondent and fatalistic attitude to life is developed and he cares little to improve his land. It is estimated that 83.1 per cent of the rural debts
of a total of Rs. 313.8 crores is incurred for unproductive purposes. The anxiety should not have been entertained if the debts incurred were expended on the improvement of land, replacement of old implements and stock. This indebtedness led in the past to the alienation of land from the peasants to their creditors.

The tendency to borrow for unproductive purposes, burden of ancestral debts, financial difficulties due to uneconomic units of cultivation and dependence on climatic conditions among others account for the indebtedness of the Indian agriculturist who is proverbially known as one who "is born in debt, lives in debt and dies in debt." However if the agriculturist has a will and a sense to save something, he can certainly do so during good years so that he may not have to run into indebtedness during years of adversity.

The institution of the moneylender in India dates from times immemorial. His role in the rural economy as a source of finance to the individual cultivator is of immense importance. The disrepute into which he has fallen is due to the adoption of unfair means after the introduction of the cash nexus. Even today he acts as the peasant's merchant, broker, and banker and meets almost all his needs. He lends money, sells cloth, grocery and other necessary things in the daily life, buys the produce for sale outside and sometimes acts as a commission agent for marketing his

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The institution of indigenous bankers was another source of credit for the Indian farmer. They carried on banking as a family business and belonged to distinct class or castes. They never cared to differentiate investments between their normal trade and their banking activities and were more inclined to business. This was probably due to their indirect control with the distant cultivators through the local moneylenders. The onslaughts of modern banking and strict legislative measures regarding usury and alienation of lands led to considerable restriction of their activities. Some have already left their credit business after depression and have migrated to cities for trade and business purposes. The Reserve Bank's attempt to bring them into the fold of organised banking on the condition that they should restrict their activities only to the banking side and should present their accounts for auditing at fixed intervals has so far proved to be a failure.

Perhaps nowhere in the world there will be a greater diversity of interest rates as is prevailing in India. The lending rate of interest generally depends upon the moral qualities and credit of the farmer, upon the amount and objects of the loan, upon the character of the seasons and upon the time element in it. After carefully weighing each case according to its merit, the moneylender knows very well that the farmer is dearly attached to the soil and therefore contents himself with personal security except
when circumstances are otherwise. He deals in kind or cash as suits his client and lets loans run indefinitely provided the payment of interest is regular and punctual. He knows all the ins and outs of the economic conditions of his clients due to his proximity to them. As compared to the credit policy of Government or the co-operatives where the economic position of the farmer, the purpose of the loan and such other quarries are carefully scrutinised before a loan is granted, the system of the moneylender who dispenses with such formalities is more elastic and attractive to the farmer.

It is generally accepted that the services that the moneylenders offer are of immense importance. At the same time it should not be forgotten that he exacts too high a price for that. At harvest time, as he lives among his clients, he skims the cream before any other creditor appears on the scene. Before the advent of the co-operative societies, there had been cases in which rates of interest charged were ranging from 37½ to 150 per cent. The Pathan from the N.W.F.P. never charges less than 60 to 75 per cent and generally relies on intimidation and brutal force for his recoveries. In the light of such cases prevalent in some scattered parts of the country even to-day, it may be said that usurious rates of interest are prevalent. H.W.Wolff said about these practices: "It is usury, - the rankest, most extortionate, most merciless usury, - which eats the marrow out of the bones of the raiyat and condemns him to a life of penury and slavery in which not only is economic
production hopeless, but in which also energy and will become paralysed and man sinks down into a state of resigned fatalism, from which hope is shut out, and in which life drags on wearily and unprofitably as if no object in view."

The rapid development of commerce and trade, the introduction of established law and permanent civil courts and the enactment of such measures as the Contract Act have strengthened the hands of the moneylender. The moneylender has also not fallen back in taking undue advantage of the illiteracy and ignorance of the farmers and has many a time made them improvident by providing easy credit. He takes great pains to see that the debts are not fully repaid and an outlet to his ever-increasing capital is kept open. The result is that, once in debt, the Indian farmer is to remain, always in debt. The gradual but steady dispossession of land up to the Second World War bore evidence to the malpractices of the moneylender who only cared for profits and not for the improvement of land.

The case of moneylender may be defended if we consider the social, political and economic conditions prevailing throughout the period. His chances of loss in providing credit to the farmer are often great, the periods of credit are generally long, and at the time of settlement allowances have to be made. In view of the risks he undertakes in providing credit to the improvident and fallible farmers in repayment of debts, the interest rates charged by him...

are not very high. There have been cases in which the
lenders have lost both the principal and interest inspite
of the vigilance and the drastic methods of recovery.

With the introduction of the Zamindari system
and the recognition of the right to transfer land, there has
been a gradual but steady increase in the alienation of the
lands of the agriculturists to the moneylenders and in the
burden of debts on the agriculturists. As a result of an
uprising of a large number of agriculturists in Poona and
Ahmednagar districts of the Bombay Province, the Deccan
Agriculturists' Relief Act was passed in 1879 in order to
restrict the transfer of land and control of usury. Various
legislative measures such as Land Alienation Acts, Agricultural
Debt Relief Acts, Compulsory Debt Conciliation Boards and
Moneylenders' Acts passed since the beginning of this
century in various States proved comparatively a failure
in view of the fact that there has not been noticed any
marked improvement in the reduction of cases of transfer
of land from the agriculturist to the non-agriculturist
class and in lowering the interest rates. In many cases
moneylenders have been able to evade legislative enactments
by their own ingenious ways and try to settle the disputes
without going to courts which would react unfavourably in
their interests. Again the illiteracy and ignorance of
the debtor to prove his claim and his hesitation to make
a claim against the moneylender lest he antagonises the
latter, his chief source of credit, have made the legislation
almost ineffective. The Agricultural Finance Sub-Committee
of the Government of India recommended that "a state
inspecting and supervising agency should therefore be set
up in each province to carry out periodical and surprise inspection of the books of the moneylenders to ensure that the provisions of regulatory acts are observed. The agency should also publish periodical reviews of the working of Debt Acts since such reviews will bring out the defects, if any, in the existing legislation and make it possible to take timely action to remove them.

As a result of these measures, the moneylenders have restricted their business of providing credit only to their old trusted clients. Many of them have wound up their business and have settled in larger towns for business purposes. The Rural Banking Enquiry Committee remarks that although these persons will continue to play a significant role in the credit structure of the rural areas for years to come, it is apparent that their importance and activities are generally on the decline, particularly due to stringent provisions of acts for the regulation of moneylenders and debt relief, and legislation affecting land tenures passed by several provinces. Many of them appear to have restricted their activities, or withdrawn from the field altogether.

Under the existing conditions however, he is considered a necessary evil providing a bulk of the capital required for agricultural needs and is especially a very useful source of credit in times of severe distress. Any attempt


to drive him out of the field without making any alternative provision of cheap, adequate and "controlled credit" is likely to prove disastrous to the rural economy of the country." Again, the slow but sure disappearance of many indigenous moneylenders will be unfortunate in India, as it will involve the loss of a wealth of invaluable knowledge of local conditions, personal contacts and relationships, extending over centuries, and of ancient banking methods and practices which if retained and judiciously mixed with modern up-to-date development should be a source of great strength and solidarity to the Indian banking system.

The implementation of the recommendations of the Rural Banking Enquiry Committee such as the inculcation of the habit of thrift, saving and investment through extensive propaganda, the launching of a vigorous small savings campaign, mobilization of rural savings for investment and rural development through the extension of banking facilities in the semi-urban and rural areas by provision of suitable government assistance and the provision of credit facilities through the cooperative institutions will go a long way to relieve the problem of rural finance in the country.

Since the second world war, there is a considerable rise in the prices of agricultural products with the result that the incomes of agriculturists have inflated. Cooperative statistics also support the above contention by showing that during this period repayments of loans have been prompt, debts

have been reduced and demand for fresh loans and renewals of the existing loans are on the decline. But taking into consideration the general rise in prices in all the commodities and that greater part of the agricultural incomes have gone to big landlords, moneylenders and planters, it may safely be said that there has not been any marked improvement in the position of the agriculturists. Unfortunately, the agriculturist once he cleared off his debts, again reverted to his old improvident habits and frittered away his savings.

The root cause of the indebtedness of the India peasant is the permanent disequilibrium between his income and expenditure. If his budget is balanced, the problem of rural indebtedness will automatically be solved. To achieve this what is needed is not half-hearted and piecemeal measures that come in the way of the uplift of the small man. And as the Royal Commission on Agriculture has said, "the greatest hope for the salvation of rural masses from their crushing burden of debt rests in the growth and spread of a healthy and well-organized cooperative movement based on careful education and systematic training of the villagers themselves".

During the second world war and thereafter significant changes have taken place in the industrial structure of the country. Indian today ranks among the

first ten leading industrialised countries of the world and is a member of the International Labour Organisation since its very inception in 1919. But taking into consideration her vast size, population, natural resources and the present state of economic development, she has to achieve much to have her place among the industrialised countries of the world. Some of the principal organised industries such as textile, cement, steel and sugar are of considerable dimensions. She is self-sufficient in her requirements of cement, steel, sugar, coal, tea, glass, matches and textiles and partially depends upon imports for her needs of hardware, pig iron, soap, paper, etc. The Planning Commission have given priorities to the development of metallurgical, engineering, heavy chemicals, ammunitions and machine manufacturing industries in which India has so far made a mere beginning. Under the First Five Year Plan, the Government have relied more on the private sector for the development of industries and have provided Rs. 93.82 crores only for development of basic industries.

The progress of industrialisation of a country is judged by the consumption of steel and heavy chemicals. India's per capita consumption of steel is only 8 lbs per year as against 360 lbs in U.S.A., 520 in U.K., and 470 in Australia. Her per capita consumption of paper is only 1 lb., cotton cloth 15 yards and cement 13.6 lbs. This is an indication of very low consumption of industrial products in India. India's position in the industrial world may also be judged by the fact that there are hardly three million
people employed in large scale organised industries which constitute less than 2 per cent of her total working population.

There are approximately three million workers employed in large scale industries, one million in railways and mines and a million in plantations. Due to the excessive pressure of population on land, easy means of communications, gradually increasing improvement in factory conditions and attractions of city life, supply of labour to industry is pushed from the rural areas to the cities. But this migration of labour is not a permanent transfer because in cases of illness, strikes or lockouts in mills, outbreak of epidemics or such other eventualities, the labourers who are strongly attached to their countrylife return for rest and retirement. Predominant among the rural areas from where the labour force is pulled are those of the Punjab, U.P., Orissa and Bihar. The result is that the inevitable concomitants of growing industrialism such as the overconcentration of labour and distressing conditions in regard to housing and sanitation prevail in large industrial centres. Recently, however, the State Governments in industrialised States and the Government of India have under the Five Year Plan provided for funds for industrial housing in urban areas. Cooperative housing societies and employers also help in construction of tenements for industrial labour but all these are quite insufficient to meet the needs of lacs of our industrial labourers.
It has been generally opined that the efficiency of the Indian industrial labour is much lower than of the other industrial countries of the world. While a weaver minds four looms in a Lancashire textile mill or in Japan, the Indian labourer handles two in Bombay. If proper training is given to ignorant labourers coming from rural areas, Indian labourers are capable of tackling any industry in a satisfactory way as witness the labour force drawn from the jungles of Santals working in Tata Iron and Steel Works in Jamshedpur. On the whole, Indian labour is comparatively less efficient due to depressing climatic conditions, widespread undernourishment and preventible diseases, low wages, lack of adequate ventilation and sanitation, prevailing slum conditions in factories and overcrowding in small apartments in which they are compelled to live.

It is rather difficult to generalise the wage rates in India because of wide variations in the rates and methods of payment in different parts of the country and in various establishments. In many cases wage-rates vary not only from province to province, but even in concerns of the same type in one industry and sometimes under the same management.

Unskilled manual labourers in industrial establishments and women and children are less paid in most parts of the country. Wages on the whole are paid highest in Bombay and lowest in Orissa. For the same type of work on a two loom system the average monthly earnings of weavers in cotton mill industry in Bombay City approximate to Rs. 108 as compared to
Rs. 100 in Madras City, Rs. 84 in Hyderabad City, Rs. 77 in Cawnpore, Rs. 70 in Bangalore and Rs. 66 in West Bengal.
The average monthly earnings of weavers in Jute mills approximate to Rs. 72 in West Bengal and U.P., Rs. 70 in Bihar and Rs. 65 in Madras. In Engineering industries wages are higher in Bombay and West Bengal than in Bihar and Madras. Earnings in cement industries are almost equal in various factories in the country. Workers in metal industry are paid more in the Tata Iron and Steel Company Limited than elsewhere. In sugar industry workers in Bombay, Madras, U.P., Bihar and Bhopal earn more than 50 rupees per month on an average as compared to Rs. 40 in Mysore and West Bengal and much less in Orissa. Workers in match factories earn highest in Calcutta, their daily earnings varying from Rs. 4/- to Rs. 7-5-0 and lowest in Bareilly ranging from Rs. 3-11-0 to Rs. 5/-.

Under Minimum Wages Act 1948, minimum wages are fixed in certain employments where sweated labour is most prevalent or where there are greater chances of exploitation of labour. Average monthly earnings of workers in collieries in Bihar and West Bengal for time-work are Rs. 48-12-0 and for piece-work Rs.67-8-0. Coal-cutters earn Rs. 75/- per month in Hyderabad and Assam and Rs. 60 in M.P. Everywhere in collieries workers receive food concessions worth six annas a day. In Assam and West Bengal in plantations, the daily earnings of men, women and children are Rs.1 to Rs.1-2-0, 0-15-0 and 0-9-0 respectively. In South India in the same industries

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The source of information regarding the payment of wages is the Indian Labour Year Book, 1949-50, published by the Manager of Publications, Delhi, 1951 (Government of India).
the daily earnings of men are Rs. 1-2-0, Rs. 1-4-0, of women 0-10-0 and of children Rs. 9-5-0 to 0-8-0. The earnings of a settled worker on the plantations have more than doubled during the last twenty years.

The establishment of cottage and small scale industries in the country are an asset to the development of rural economy. These industries give employment to many more millions than the organised large-scale industries. They are the only great agency which can fruitfully absorb millions of rural unemployed. They provide them with subsidiary incomes to supplement their already low level of income and thereby help in raising their purchasing power and the standard of living. Under the Five Year Plan, a sum of Rs. 27 crores is provided for the development of small-scale and cottage industries on the countryside.

Handloom is by far the most important industry in giving employment to the labourers, agriculturists and artisans. The growth of 'Swadeshi' spirit gave an impetus to the manufacture of hand-spun and hand-woven "Khaddar". Some of the States have made strenuous efforts to rehabilitate the industry and to put it on a sound footing. Difficulties of getting raw materials and capital are the constant handicaps of the weavers and their economic conditions are far from enviable.

The predominant small-scale and cottage industries besides the handloom weaving and spinning industry in the textile field are those engaged in the manufacture of finished
goods, e.g., brass and copperware, iron foundries, furniture, cutlery, manufacture of utensils and soap; tanning and leatherwork; earthenware, bricks and tiles; food industries such as canning, sweetmeat making, rice-hulling, oil pressing, sugar-cane crushing and flour mills; those for the manufacture of bangles, mechanical and other toys, baskets, mats, canework; and paper and subsidiary industries utilising forest products.

We have cheap and abundant labour, an adequate supply of raw materials, mineral products, and a wide internal market for the products of cottage and small-scale industries. With a small capital these industries can employ more men. In spite of such a favourable situation for the development of these industries, the manifold difficulties such as those of finance, marketing, transportation, raw materials, standardisation of weights, measures and products, competition from organised industries, inadequate organisation and lack of co-ordinated government policy hamper their stabilisation and growth. Development of these industries as complementary to the large-scale organised industries with a properly integrated policy will improve the economic conditions of those inhabiting the countryside.

No statistical estimates on a comparative scale regarding the value and volume of the internal trade of the country are available. However, it may safely be said that our internal trade is far more important than the external trade in quantity and in value. The development of internal trade so far has been adversely affected by such factors as
the extremely low purchasing power of the rural population, inadequate transport facilities and self-sufficiency of the village system. The facilities and organisation of conducting the internal trade were never designed to meet its requirements. In working the currency, the banking, the transport, terminal and insurance facilities, the requirements of internal trade are subordinated to those of the foreign trade.

"In view of the excellent natural distribution of agricultural, mineral and forest resources in this country and her population of teeming millions representing an expanding reservoir of potential consuming capacity... India is in a very happy position in the matter of fostering the development of her internal trade on a planned and scientific basis". Better transport facilities, creation of new markets by propaganda and knowledge of statistical and marketing intelligence will go a long way to achieve the ideal.

Before the first World War, India was primarily an importer of manufactured goods and exporter of raw materials and foodgrains. But the recent trends in the composition of her export trade indicate that she is gradually but steadily on the road to industrialisation, and exports now constitute more of manufactured goods. After the second World War and in the post-devaluation period the value of foreign trade of India has increased. Great Britain.

even to-day as in the past, is the largest customer of India, both as regards exports and imports. India's principal exports consist of jute manufactures, cotton cloth and yarn, tea, hides and skins, mica, manganese, oilseeds and oils, lac, raw wool and spices. On the import side foodgrains assume vital importance since their import bills run into crores of rupees affecting seriously the economy of the country. Other principal items of import are raw cotton, machinery and millwork, mineral oils, cycles and motor cars. We have also to depend upon foreign imports for non-ferrous metals, electrical goods and equipments, dyestuffs and colours, drugs and medicines. The total value of the foreign trade of India during the year 1952 was made up of imports totalling Rs. 791.17 crores and exports Rs 620.24 crores. India had, therefore, an adverse trade balance of Rs 170.93 crores for 1952.

It is widely recognised that in an underdeveloped country with vast distances like India cheap and efficient transport is indispensable for all forms of development, whether of agriculture, trade or industry. In the past, development of internal trade, of industries giving subsidiary occupation, of intensive cultivation and agriculture in general have suffered due to inadequate transport facilities. Railways have been given primary importance at the cost of development of roads and inland waterways. There has not been followed a coordinated and consistent policy.

According to the latest figures available, mileage under railways in India approximate to 34,000 miles with a capital of Rs. 672 crores invested by the State. The railway
system has been completely nationalised at present. Government is engaged with the integration, regrouping and rehabilitation of the whole railway system in recent years. The Railway Minister in his Budget Speech in 1951 explained that under the regrouping of railways into six zones, not only the carrying out of policy of improvement in the administrative pattern and financial control, rationalisation of workshop and other occupational arrangements would be promoted, but economies in the management and enhanced efficiency in operation would be secured. Railways in the past have contributed to the relief of famines, military and strategic gains, stimulation of trade and industry, opening up of the interior and the development of the country in general. Under the Five Year Plan Rs. 400 crores have been provided for, mostly to rehabilitate the railways.

If railways have played a notable part in the carriage of heavy goods from one place to another, the motor transport in the immediate past have played no small part in the carriage of comparatively less heavy and bulky goods for short hauls, door to door delivery and transport of perishable goods. There are approximately 2,49,000 miles of roads in India, out of which 86,000 are metalled and 1,54,000 unmetalled. The road system is sadly inadequate even for bullock-carts and during monsoon, villages are completely isolated from outside world for lack of any rail or road link. Only 43 per cent of the roads are motorable in all weather. The Indian Road Development Committee emphasised in their report the need for improvements in road transport.

for road development in India for the social and economic progress of the population and as a complement to the railway development. Even the Nagpur Plan of 1943 was shelved on grounds of paucity of funds. It may be of interest to note that Rs. 118 crores have been provided for in the First Five Year Plan for the rehabilitation and the development of the road system in the country.

Water transport is the best agency for the transport of heavy goods at lower cost where speed is unimportant. The flourishing inland navigation of India received a great setback with the development of railways. The Ganges and the Brahmaputra offered unique advantages for the development of inland navigation for hundreds of miles in the country. During recent years the Government have decided to establish the Ganges Water Transport Board for developing navigation on the Ganga.

India's geographical situation as well as the magnitude of her external trade are such as to enable her to occupy an important place in ocean shipping. She has an extensive coastline of 3200 miles but its coastal shipping is in mere infancy. The share of Indian tonnage in the total tonnage cleared from Indian ports during 1949 was about 2.75 per cent as against .83 per cent in the previous year and 1.24 per cent before the war. Total Indian owned tonnage increased to 3.77,500 by the end of 1950 from 1,27,088 in 1946. However, this forms only 1 per cent of the world tonnage. Difficulties of shipping facilities experienced during the second World War and until recently due to the
Korean War hindered the import of foodgrains, raw materials and other important items and have made the Government realise the utter inadequacy of our position in shipping. Under the Five Year Plan Rs. 18 crores are to be spent for the development of Indian shipping industry and the training of personnel in marine engineering and other allied branches.

India enjoys a favourable geographical position for the development of air transport, both internal and external. Civil aviation is comparatively of recent growth in the country's transport system. Since the Government had to subsidise in one way or the other most of the air companies, it nationalised the air services on 1st August 1953 and appointed two Air Transport Boards one to look after the internal air services and the other for external services. Under the Five Year Plan Rs. 22.87 crores are to be spent to develop civil aviation.

On the whole the country's transport policy should be so framed that each constituent of the system, the railways, roads, inland waterways, shipping and civil aviation is allotted its appropriate sphere in a comprehensive and coordinated scheme and that each is regarded as a part of the vital national service complementing the other and not as an independent and competing unit. Nationalisation of the whole transport system is likely to be more economical and useful for the speedy development of industry, trade and agriculture of the country.

Despite the fact that there has been a marked progress in the banking structure of the country during the
last few decades, the credit facilities are not available to meet the needs of the country. Again, the banking system is concentrated in a few large industrial and commercial centres while the rural areas are practically devoid of any type of banking facilities except those provided by the cooperative banks and the indigenous bankers. The country is not yet educated in the practice of banking and there is vast scope for the development of banking habit not only in the rural areas but also in the semi-urban areas. It may be interesting to note that in 1951 there was only one banking office for every 9800 of the population for places which were served by a banking office, while for the country as a whole, there was only one office for every 70,352 of the population.

The present banking structure of the country comprises of the Reserve Bank of India, the Joint Stock Banks, the Exchange Banks, the Cooperative Banks, the Post Office Savings Banks and the Indigenous Bankers.

The Reserve Bank of India was established in India from the 1st of April 1935 under the Reserve Bank of India Act of 1934 as a shareholders' bank "to regulate the issue of bank notes and the keeping of reserves with a view to securing monetary stability ... and generally to operate the currency and credit system to its advantage". The Reserve Bank was nationalised on 1st January 1949 by the Reserve Bank of India Amendment Act of 1948. The Banking Companies' Act of 1949 centralised in the hands of the Reserve Bank all supervision as well as control over the commercial banks. It also helped
in completing the process of integration of corporate banking system in the country. Reserve Bank has also been vested with certain powers in regard to agricultural credit the discussion of which will be taken up in a later chapter.

Since the establishment of the Reserve Bank of India, the special privileges and advantages enjoyed by the Imperial Bank of India as a banker to the Government came to an end. At the same time, the restrictions put by the Government were also relaxed and the bank started functioning as a full-fledged commercial bank. Even to-day the Imperial Bank holds a unique position in the banking structure of the country and acts on behalf of the Reserve Bank where the latter has no branch.

Exchange banks generally deal in overseas transactions and finance the external trade of the country. They are not interested in the internal trade of the country. It is unfortunate that neither the Imperial Bank nor the Exchange nor the commercial banks enter the rural areas for their business. However, in exceptional cases, they serve the landlords, the moneylenders and the planters. While cooperative and the indigenous bankers are the only agencies to supply credit to the villager, the long-term credit needs such as those for the improvement of land and stock, for the redemption of old debts and for socially necessary expenditure are partially met by the land mortgage banks.

There were 90 reporting scheduled banks and 421 non-scheduled banks with paid-up share-capital and reserves
of Rs. 63.28 crores and Rs. 12.66 crores respectively by the end of February 1953. Since the second World War there is a downward trend in the number of banking offices in the country. In the post-war years there is a welcome corrective to the reckless expansion of banking offices. The closure of a number of uneconomic banking offices has doubtless contributed to the strengthening and consolidation of the banking system as a whole. The passage of the Banking Companies' Bill in 1949 has further affected the weeding out of uneconomic and unhealthy units and at present the whole banking system is undergoing a process of consolidation and rehabilitation.

Since 1943 the problem of inflation has become an established fact in the economy of the country. Contributory causes to the inflationary tendency during the second World War were the financing of war by the overissue of notes, underproduction of goods, increased purchasing power due to war profits chasing too few goods and the unbalanced budgets of the Government. Since the war price level has not receded and in April 1953 the index for all commodities stood at 385 taking 1939 as the base year. The reasons for this increase in the general price level may be ascribed to a number of factors including heavy expenditure incurred by the Government on defence on Kashmir front, the rehabilitation of the refugees, heavy import bills on foodstuffs, raw materials, machinery and

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and capital goods, underproduction both in the agricultural and industrial sectors of the economy and unbalanced budgets due to heavy public expenditure in general to finance the Five Year Plan.

It has been the policy of the Government throughout these years to stabilise the price level and then to lower it gradually. Among the disinflationary measures adopted by the Government to curb the rising price level may be mentioned the rationing of essential commodities, launching of a vigorous drive to absorb the excessive purchasing power mobilisation of rural savings through a nationwide small savings campaign and borrowing programme, relief in taxation to industry as an inducement to higher production and adjusting the tariff policy according to international trade trends. Under the present circumstances what is needed is to increase all-round production and to lower prices of agricultural products which in turn will lower prices of all other goods. Higher bank rate may not prove effective to depress the price level so far as the increased cost of production prevails in the agricultural and industrial sectors of the economy.

It will not be an exaggeration to say that the financial and economic structure of the country is sound enough to compare favourably with many other countries of the world. For the year 1952-53 the Finance Minister's revised estimate of revenue and expenditure was Rs. 418.64 crores and Rs. 422.43 crores, showing a deficit of Rs. 3.79 crores compared with the original estimate of Rs. 404.08 crores and Rs. 401.25 crores. In the same year, the overall deficit including capital account was of the order of

Rs. 83 crores against an estimated overall deficit of Rs. 75.60 crores. In the coming years due to heavy expenditure to be incurred in financing the Five Year Plan, there will be increasing deficits in budgets both in the capital account and in the overall budget. "The startling revelations made by the Estimates Committee, Public Accounts Committee and other Inquiry Committees appointed by the Government of India in respect of working of costly departments and by the Reserve Bank about the "Grow More Food" Campaign show that there are definite grounds for economy which have not been headed to".

It has been said that India is a rich country inhabited by poor people. Natural resources of the country remain underdeveloped on account of lack of capital and technical personnel to exploit and utilise them fully. The alarming increase of population and its pressure on land are other important factors which aggravate the situation by reducing the per capita income to the already low level of income.

Any estimate of the national or per capita income of India is likely to be a guesswork to a considerable extent in view of the fact that there has not so far been made any census of production of the various branches of the country's economy, and the statistics that are available are neither adequate nor accurate nor comprehensive in scope. All these necessitate a greater margin of error in the estimates of national income for some years to come.

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1 Modern Review: Editorial Notes Vol LXXXIX No 4, April, 1951 op cit, p.262.
Except in cases of organised industries, banking, insurance, and railways the available statistics are not very reliable. The statistics available in regard to agricultural production in general, for unorganised trade, transport and industries and for the professional and liberal arts are quite unsatisfactory. All the previous attempts to estimate the national income are therefore necessarily based on the accuracy and availability of the data at the time. Effective measures for improving the statistical information in all the sectors of the economy will lead to greater accuracy and give a better and real picture of the economic conditions of the people of the country.

Various estimates during the period 1865-1925 were made to assess the national income of India, the prominent among which were the attempts of Dadabhaji Naoroji, Lord Curzon, Findlay Shirras and Shah and Khambhatta who worked out the per capita income of an Indian at Rs. 20, 27, 107 and 74 respectively. Each one of these estimates was based on the scarce data available at the time and therefore the systems of computing the national income in each case differed.

Of comparatively later attempts to estimate the national income, those of Dr. V.K.R.V. Rao and of the Reserve Bank of India deserve special mention. Dr. Rao in 1940 computed the net income for British India for the year 1931-32 as lying between Rs. 15,378 millions and Rs. 17,304 millions or to put the same thing in another way, the income of British India for 1931-32 amounted to Rs. 16,361 millions
with a margin of error of 6 per cent. This estimate has been claimed by Dr. Rao as based on a more adequate data than the previous estimates and therefore claims more legitimate title to existence. The Reserve Bank of India in 1944 worked out the per capita income of an Indian at Rs. 65 for the country as a whole and Rs. 48 as the rural per capita average.

In April 1951 appeared the First Report of the National Income Committee appointed by the Government of India in August 1949 "to prepare a report on the national income and related estimates, to suggest measures, for improving the quality of the available data and for the collection of further essential statistics, and to recommend ways and means of promoting research in the field of national income." This was the first scientific attempt to assess the national dividend and per capita income on a Government level.

The Report reveals that agricultural production still constitutes half the national income, 47.6 per cent to be more precise of the total national income while commerce, transport and communications contribute 19.6 per cent; share of mining, manufacturing and hand trades represent 17.2 per cent and other services produce 15.9 per cent of the total income of the country.

The national income of India for the year 1948-49 on the basis of an estimated population of 341 millions has been worked out at Rs. 87.1 abja (billions), in other words, the per capita annual income of an Indian in 1949 of an Indian seems to have risen by four times compared to the per capita income of Rs. 65 in 1931-32. But taking into consideration...

the price level that has shot up by more than 400 per cent during 1931-32 and 1948-49 it may safely said that the national and the per capita income in India in terms of real goods has not increased during the period.

Out of the total national product of Rs. 8,710 crores in 1948-49, the consumer expenditure on food alone probably amounted to Rs. 4,600 crores or nearly 58 per cent of the national income. This high expenditure on food indicates in general the under-developed economy of the country. To maintain such a large proportion on the margin of subsistence is only possible because majority of the population live in wretched huts, economise in clothes, know no furniture, rarely take nutritious items of food and have nothing to spend on "miscellaneous" - that well-known item in the family budget which serves as an index of the level of the standard of life of the family.

Maximum utilisation of the productive powers of the country, rapid, organised and effective development of capital and under-developed resources, widely administered public expenditure on capital works and development projects and a farsighted policy to increase the production in all the sectors of the economy will improve the standard of life of the people of the country. To achieve this ideal, no measures would be too radical to employ.

Importance of the planned utilisation of the resources of a country is being widely recognised in various countries of the world during the post-war period. In India there have been formulated plans such as the Bombay Plan, the People's Plan, the Gandhian Plan and that of the National Planning Committee under the chairmanship of Pandit Jawaharlal Nehru. Each one of these plans represented the ideology of the planners.

The Planning Commission appointed by the Government of India published its report, the First Five Year Plan in 1952. The Plan has been praised in some quarters for its realism and practical outlook while criticised by others for its utter inadequacy to provide incentives at all.

Out of a total expenditure of Rs. 2068.78 crores to be incurred in the first five years, greatest emphasis is given to the development of agriculture and irrigation. The Plan makes a provision of Rs. 618.08 crores constituting 30 per cent of the total expenditure on agriculture and irrigation to meet the glaring deficiencies in regard to agricultural production and thereby to secure a better balance in the economy. It has rightly discarded the myth of attaining self-sufficiency in the near future and is of the opinion that other things remaining the same, the country will have to import on an average 3 million tons of foodgrains annually. Instead of spending Rs. 434 crores on grandiose schemes of multipurpose and irrigation projects the Planning Commission would have done well to divert
substantial sums of money on the construction and maintenance of minor irrigation works such as small canals, tanks, reservoirs and tubewells.

The Planning Commission have earmarked Rs 173 crores only for industry from the public sector for the development of basic industries and have relied on the private sector expecting that the latter would invest Rs 590 crores for the rehabilitation and development of industries. The Commission have emphasised the need for increasing producers' and capital goods. Incentives given to private industry by the Government in the form of tax exemption to certain infant industries, import concessions and concessions in raw materials, depreciation allowances, etc. may not suffice to enthuse the private sector to implement the Plan according to Government expectations.

It is gathered from the Plan that the improvement of transport and communications will involve an expenditure of Rs 497.10 crores. This huge amount of expenditure could have been more fruitfully used by diverting a few crores of rupees to provide for social services which are allotted a sum of Rs 339.81 crores by no means sufficient for a country striving to be a welfare State.

The expenditure of Rs 2068.78 crores in the First Five Year Plan is almost divided between the Centre and the States in the ratio of 60:40, the centre's share being Rs 1240.54 crores and the States' Rs 828.24 crores. States would mostly confine their activities to agricultural and rural development, social services and expansion of transport
and communications falling within their jurisdiction. They would receive financial assistance from the centre depending upon the resources that the centre can spare as well as on the priorities laid down for the country as a whole.

The Commission has indicated a possibility of "deficit financing" to the tune of Rs 290 crores in case foreign aid or help is not available. Since the flow of capital towards the financing of the Plan from Government's expected sources such as tax receipts, corporate net savings, foreign aid, annuities, banks and public bodies and private savings are of doubtful validity, the financing of the Plan will present considerable difficulty leading to deficit financing to about Rs 600 crores or to modify or re-write it. If deficit financing is resorted to beyond manageable limits by the creation of paper money, there will be a definite strain on the economy of the country setting into motion the inflationary tendencies. However, on the whole, with the sincere cooperation of industry, labour, Government and the people at large, it is hoped, the Plan will meet with success.