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ADVANCED STUDY
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ECONOMICS OF THE CABINET DELEGATION'S PROPOSALS

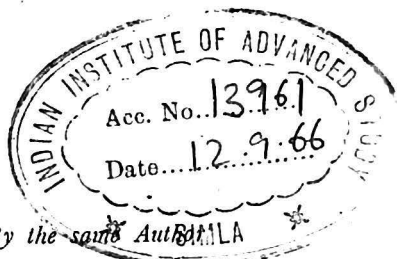
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(Second Edition)

HIND KITABS LIMITED
BOMBAY

First Published, October 1946
Second Edition, January 1947



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—Hind Kitabs, Ltd.

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PRINTED BY U. NARASIMHA MALLYA, PROPRIETOR, THE B.B.D. POWER PRESS, COTTONPET, BANGALORE CITY; AND PUBLISHED BY V. KULKARNI, HIND KITABS LTD., 261-263, HORNBY ROAD, BOMBAY

FOREWORD

Professor S. K. Muranjan, one of our very thoughtful and profound economists, gave a very interesting talk at the fortnightly meeting of the Bombay Discussion Group on August 19, 1946. The Group consists of a necessarily limited number of members interested in a dispassionate study of social, economic and political problems of national and international significance. At their group meetings they discuss freely various subjects in an atmosphere of candour and detachment and in the spirit of scholarship and service. Ordinarily, such studies and discussions are not published. As, however, the subject of this brochure is of vital importance to the progress of the country in various directions and as very little has been said or written about it, the Group has decided to place it before the public.

The problem of the State and Economic Life is certainly not new, but it has acquired a special significance for the people of India in view of the changes implicit in the proposed political structure. How far does this political structure offer conditions of progressive finance? How far does it offer or hinder the

maximum utilisation of the natural and acquired resources of the country? How far is it compatible with the economic objectives which prevailing circumstances or ideologies suggest in respect of questions such as social security, organisation of food supply, stabilisation of prices, social controls and planned investment? These are some of the main questions dealt with by the author. He has given us a factual presentation of the problem free from generalities in which some of our professors love to indulge. Without being dogmatic he has indicated the fissiparous tendencies inherent in the proposed structure and the pitfalls which, in the interests of the economic unity of the country, administrators and politicians of India would do well to avoid.

17th October, 1946

R. P. MASANI

THE political structure envisaged by the Cabinet Delegation and accepted in principle by the main political elements in the country is now quite familiar. The structure is to be built in three tiers. The Union Centre covering British India and Native States is to be entrusted with Defence, Communications, External Affairs and Commonwealth Relations. The balance of the functions of the present Central Government will be the care, in their respective areas, of Group Centres of three sections into which present British India is to be split for the purpose. Section B is to be composed of Sind, the Punjab and the N-W.F. and will include 12.2 per cent of the population of British India. Section C will consist of Bengal and Assam which hold 24.9 per cent of the same population. The rest of the provinces of British India which lie midway between these two Sections and contain the balance of the total population of 29.4 crores will be incorporated into Section A. At the base of this structure will be the existing Provincial and Native State administrations.

Our main concern here is to estimate the economic significance of this political structure. Our judgement must depend on the answers we are able to give to three main questions. Firstly, since the present level and manner of public taxation and expenditure are no mean element in our national welfare, how far does this political structure offer conditions of progressive finance? Secondly, how far does it assure or hinder the maximum utilisation of the natural and acquired resources of the country? Finally, how far is it compatible with the economic objectives which prevailing circumstances or ideologies suggest in matters of Food, Social Security, Planned Investment, Social Controls, Stabilisation of Agricultural Prices, etc.?

Apart from Railways, Posts & Telegraphs and Airways in which commercial and taxative aspects are intermingled, the Union Centre must have the ways and means for Defence, External Affairs and Commonwealth Relations. Our defence expenditure exceeded Rs. 46 crores in 1938-9 and is placed at 245 crores in the first post-war year 1946-7. The latter figure is undoubtedly inflated by persistence of War conditions. But even when War conditions cease to influence our Defence expenditure, it must not be overlooked that a free India must incur heavy liabilities on account of expanded Naval and Air Forces. Though our Defence budget in peace time may not approach the high level of 246 crores it is unlikely to fall much below Rs. 150 crores.

Of the total tax revenue of 76 crores in 1938-9, Customs contributed 40.5 crores or about 53 per cent. The next revenue head was Taxes on Income which accounted for 15 crores or about 15 per cent of the total. The future of Customs as a source of means for the Central Union is bound up with other questions. If Customs and Tariffs are made over

to Section Centres, it would hardly be feasible to leave commercial policy to be decided by the Section Centres and to allot the proceeds to the Union Centre. Though commercial policy should not be influenced by requirements of Government expenditure, the precariousness of the income must ensue in embarrassment to the custodians of National Defence. Secondly, the size of future Customs revenue depends in a large measure on the extent to which the goal of a self-contained economy is implemented. It is generally true, however, that enlargement of national output has always led despite tariffs to enlargement of foreign trade and therefore, Customs revenue. Finally, it must be noted that the experience of World War II proves that while Customs is a valuable source of revenue in peace time, its value during war is at the mercy of military and political developments.

These considerations point to Taxes on Income and other revenue heads as the likely prop of our Defence expenditure for the future. Although in pre-war years Taxes on Incomes hardly yielded a revenue equal to one-third of our pre-war Defence expenditure, the war proved that it alone possesses the two vital qualities necessary to meet such situations—reliability

and indefinite capacity for expansion. In the year of peak War expenditure 1945-6, out of a total tax revenue of 313 crores, Corporation Tax and Taxes on Incomes alone gave 189 crores or more than 60 per cent. With the disappearance of excess profits, the tax on which gave 75 crores, and deflation of money incomes, it seems hardly probable that the income from this source will reach the required 150 crores. The only other source of income within the immediate reach of the Union Centre is Railways and Communications in general. It is however doubtful whether the precedence given to economic development in times of peace will permit any large and steady profit from this investment. Nationalised railways and perhaps mercantile marine are war expedients for raising much-needed finance and are particularly useful as enabling some burden to be placed on individuals and classes falling outside the range of income tax assessment.

Some additional source of revenue for the Central Union is therefore clearly necessary. It will be all the more necessary if the sphere of the Central Union is expanded beyond Defence and Communications. At present, Scientific Matters relating to Industries, Agriculture,

Geology, Botany, Meteorology, Power Board, and Census & Statistical Services fall within the purview of the Centre. It would be to the advantage of all that in knowledge and information at least our resources should be pooled together. The same could be said for Broadcasting and Radio Services.

The province of the new Sectional Centres is expected to cover, besides Scientific Matters, the activities connected at present with Planning and Development, Commerce, Industries and Civil Supplies, Food, Agriculture, Labour, Education, Health, Information & Broadcasting, and Central Services. It will be noted that with the exception of Commerce and like matters, the bulk of the responsibilities, in these subjects rests even now with the provincial Governments. The Centre is concerned very largely with co-ordinating aspects. It may well be asked whether from purely administrative standpoint, forthright administrative centralisation or amalgamation will not be much cheaper and more efficient than Sectional Centres like B and C, which will now include only 12 and 24 per cent of the British India population. Even for Section A, a redrawing of provincial boundaries might so reduce the number of provincial units that the Sectional

Centre might well become the fountain head of policy and direction while the provincial units become convenient areas for administrative purposes.

The expenditure of the Central Government on matters other than Defence, i.e. Civil Expenditure, was about 40 crores in 1938-9 and is placed at 112 crores for 1946-7. According to the proposed arrangements, Customs and Central Excises, the two remaining important heads of revenue are to be assigned to the Section Centres. In 1946-7, the yield of these heads was 65 and 46 crores, a total of 111 crores which may be compared with the Civil Expenditure of 112 crores. Though some expansion in Customs and fall in Excises may be expected, it is clear that the scope for development is very restricted. Besides, the absence of any direct taxes at the disposal of the Section Centres would make it difficult to adjust tax burdens to capacity of individuals and classes. If, as suggested above, Section Centres became the centralised Governments for the three areas, the difficulty both of adequacy of finance and distribution of tax-burdens will resolve itself. For, Customs, Central Excises and the present indirect taxes of provincial Governments will then be counterbalanced by

Death Duties, Agricultural Income Tax, Capital Levies and any other direct taxes which may be devised.

The division of the country into three sections gives point to the relative contribution of each area to the common expenses of the Union Centre. Since taxes on non-agricultural income are to be the main source of its revenue, it is to these that we must give our main attention.

**INCOME ASSESSED TO INCOME TAX
(1939-40)**

		Co. Profits	Hindu Undi- vided Family	Unre- gistered Firms	Indivi- dual In- comes	Number of As- sessees
Income (lakhs) ...	114,63	37,03	25,86	5,06	43.69	273,000
Percentage Share of Sec. B ...	12.2	3.3	20.8	23.3	12.7	13.2
Percentage Share of Sec. C ...	24.4	41.1	10.7	17.5	20.0	19.7
Percentage Share of Sec. A ...	63.4	55.6	69.5	59.2	67.3	67.1

It is a remarkable feature of this analysis that the total income assessed to income tax in the three areas is more or less in exact proportion to their population. No area is therefore likely to bear more than its just share in the burden of Defence. The composition of this income shows some striking differences. In Section B, Undivided Hindu Families and Unregistered Firms which in the main are probably Hindu in their composition own a much higher proportion of the total income and therefore bear a much larger burden. In Section C, the main element of income is Company Profits. In the matter of Individual Incomes, the share of the areas in the total income is more or less in proportion to their population.

The financial capacity of Sections A, B and C to meet the demands of a new and dynamic economic ideology is a matter of their economic resources and structure. Something will be said on these points presently. Their present revenue position is briefly this. Apart from Taxes on Incomes, of which we have already spoken, they contribute to Central revenues through Central Excise and Customs. Although their exact shares are undefinable, it would not be too arbitrary a procedure on the

basis of our knowledge of distribution of non-agricultural income to impute to them the burden in proportion to their population. The total provincial revenues of which approximately two-thirds is tax revenue were distributed among the three Sections as follows :

	Total Revenue (Crores)	Percentage Share of		
		Section A	Section B	Section C
1938-9	85	62.7	17.8	19.5
1946-7 (Budget)	203	61.5	22.8	15.7

Two points invite attention. Section B raises a revenue in pre-War years which was much higher than its proportion of the total population, while the revenue of Section C fell much below this proportion. The developments of War years, however, have raised this proportion appreciably in the case of Section C and lowered it in the case of B, thus bringing their revenues more in accord with their populations. Unhappily, this evening of tax-burdens was achieved largely by a steep increase in the Excise Revenue of Bengal while this income remained within moderate limits in the Punjab.

II.

Section B includes the Punjab and Sind which from available statistics give the impression of being among the three or four most well-to-do provinces in this country. The income of Section B depends very largely on two staples, cotton and wheat, of which it exports a good part to other provinces and abroad.

1938-9

	Output		Export	
	Qnty. (000)	Value (Crores)	Quantity (000)	Value (Crores)
Cotton (400 lbs. bales)	1,429	14	...	14
Wheat (tons)	4,037	43	721	7
		57		21

Wheat and cotton do not cover all exports of Section B. The actual exports must be appreciably in excess of Rs. 21 crores, perhaps in the neighbourhood of Rs. 25 crores. For a good part of these exports, Section B depends for its market on Section A. The imports received by Section A from the rest of India in

the East and the North-West indicate the extent of this market.

SECTION A, NET IMPORTS

1938-9

	Quantity (000 Mds.)	Value (Crores)
Raw Cotton ...	4,341	4.43
Grain, Pulse, Flour ...	2,789	.65
Wheat ...	5,223	.69
Salt ...	9,758	2.09
		7.86

Except for Salt, no other imports are likely to arrive from Section C. Nor does Section C offer much of a market for the products which Section B has to offer. Recent developments suggest that this pre-War dependence of Section B on the market in Section A is bound to grow. The exports of wheat from India have always shown great fluctuation and depend in a large measure on crops and prices of wheat in great agricultural countries like Canada, Australia and Argentina. The prospects of cotton are equally precarious. Our market in Japan has fallen into the hands of the U.S.A. and the grip of the U.S.A. on that

unfortunate country is not likely to relax for many years to come.

For its exports of about 25 crores, Section B receives from the rest of India and abroad a volume of imports. The imports from the rest of India are roughly as follows :

SECTION B, NET IMPORTS

1938-9

	Quantity (000 Mds.)	Value (Crores)
Coal and Coke ...	56,314	5.35
Cotton Piece-goods ...	1,304	6.25
Grain, Pulse, Flour ...	3,782	.88
Iron and Steel ...	2,336	1.18
Sugar ...	3,905	2.30
		15.96

As Section C is itself an importer of all these commodities it is reasonable to assume that these commodities are largely supplied by Section A. There is one important commodity which does not appear in this list, namely jute. The actual imports from the rest of India must therefore be much higher than 16 crores accounted for above.

To these imports of about 20 crores, we must add what Section B receives from abroad. The

total imports for the whole country for 1939-40 aggregated to 165 crores. If the consumption of imports were assumed to be in the same ratio as population, this gives Section B a share of about 16 crores.

It appears therefore that against an aggregate export of about 25 crores, Section B receives imports of about 20 crores from Sections A and C and about 15 crores from abroad. Its trade balance on the whole seems to be adverse. In other words, over and above its visible exports, it must be deriving some income from other sources or invisible exports. On the tentative figures cited above, the size of this income must be at least 10 crores but is likely to be much larger as a matter of fact.

The following deserve to be noted as among the more important sources of this income.

(i) Section B has in the past contributed about half the strength of the armed forces of the country. One estimate places the wages and pensions received from this source at 25 crores. This is perhaps an overestimate. The Defence expenditure in 1938-9 and the budgeted figure for 1946-7 are 46 crores and 245 crores respectively. The greater part of this expenditure is incurred on equipment and

material. Not more than a third of the total budget goes into wages and salaries and of this the larger part finds its way into the pockets of the British element. If our peace time Defence expenditure is placed at 150 crores, probably 50 to 60 crores will be incurred for wages etc. On this calculation, of the pre-War expenditure of 46 crores, not more than 20 crores were spent on wages and salaries of which less than 10 crores must have fallen to the share of the Indian element. Section B could not have received much more than 5 crores.

As for the future, Section B will no doubt share in the Indianisation and expansion of the armed forces. But under any political arrangements, it is not likely that particular sections of the population will be permitted to have a larger share in Defence at the expense of other sections. Of the 50 crores and odd which may be incurred on wages and salaries, about 10 to 15 crores at the maximum will be the share of Section B.

(ii) Perhaps because of its connexions with military establishments, Section B sends on the balance more craftsmen, mechanics, traders, etc. to other parts of the country than it receives. As we shall see presently, this

Section lacks industries and has therefore the problem of finding outlets for its capital. Besides, from earliest times, the Multani, Shikarpuri money-lenders, shroffs and indigenous bankers have been playing a great part in the money markets of the country, particularly Bombay and Calcutta. The income from these services and investments could not but be always considerable. It is significant that in 1938-9, the money-orders paid out in this area exceeded those issued by about 130 lakhs. The Punjab is also distinguished from other areas of the country by the large number of bank offices and branches, and statistics of deposits and investments, if available, would no doubt indicate that it is on the whole a deposit collecting area.

(iii) The N-W.F. Government receives a subvention of one crore from the Central Government.

III

The economic mainstay of Section C is Tea and Jute, raw and manufactured.

1938-9

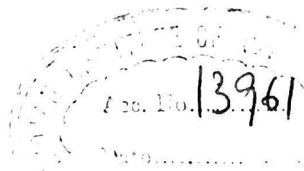
	Output		Exports Abroad	
	Quantity	Value (Crores) Rs.	Quantity	Value (Crores) Rs.
Jute Raw, (100 bales of 400 lbs.) ...	9,178	53.4	2,715	13.4
Jute, Manufactured ,, (mill consumption)	6,463			25.8
Tea (000 lbs.) ...	4,66,019	24.5*	3,89,729	24.0†

With a jute crop valued at 50 crores and more, Bengal derives an income from raw and manufactured jute which may be placed at about 75 crores. To this, we have to add about 25 crores on account of Tea grown in the remaining area of Section C.

For these staples a small part of which only is used by Section C, it receives the following commodities from the rest of the country.

* At average of domestic and foreign prices

† At 11 as. a lb.—export price



SECTION C, NET IMPORTS

1938-9

		Quantity (000 Mds.)	Value (Crores)
Coal and Coke	...	73,367	6.98
Cotton Piece-goods	...	918	.44
Wheat	...	3,560	.11
Iron and Steel	...	4,198	2.12
Oilseeds	...	7,795	2.52
Sugar	...	1,885	1.11
			13.28

To these internal imports of about 15 crores, we must add the value of imports received from abroad. On a population basis, the share of Section C may be placed at about 35 crores. As Sections A and C are industrially much in advance, it is probable that they actually receive on account of machinery and industrial raw materials imports somewhat in excess of their population percentage. Even so, imports of 60 crores would still leave an exports excess of 30 to 40 crores to be accounted for.

Section C thus presents a contrast to Section B. Its favourable balance of trade to the extent of 30 to 40 crores is a measure of the payments it owes to people outside its area.

(i) As is well known, foreign capital, largely British, is mainly concentrated in the trade, industries and plantations of this area. It is difficult to estimate the size of these investments. Perhaps, it would not be an overstatement to say that of the pre-war 750 to 1,000 m. £s invested in India, at least half must be found in this area. At a moderate return of 4 per cent on this investment, the total payments to be made would be in the neighbourhood of 25 crores annually.

(ii) It is also well known that the people of these areas have taken but little part until very recently in the development of their trade and industry. The management and capital of the Indian section of coal mines, jute mills, tea-plantations, banks, etc. originate in parts of India outside Section C. Though it is difficult to estimate the size of payments to be made on this account, they must run into an appreciable amount.

IV

This over-all picture of the economic problem created by the proposed political structure would not be complete unless we take note of the progress which manufacturing has made in the three Sections. The internal imports of Section B and Section C furnish sufficient index to the kind of mutual dependence which a unified economic system has already established. But the following set of figures offers a quantitative measure of the same facts.

1938-39

	Total	Percentage Share of		
		Section A.	Section B.	Section C.
Population (Crores)	29.4	63.9	12.2	24.9
Joint Stock Companies	9,389	37.7	12.8	50.5
Paid Capital of Joint Stock Companies (Crores)	271	55.1	2.8	42.1
Factory Labour—Perennial (000)	1,423	58.1	3.1	38.8

The relative shares in the number and paid-up capital of joint stock companies is not a conclusive index to the degree of industrialisation of the different areas. Companies which have their headquarters in one Section may have their factories spread over the whole country. Besides, these figures exclude enterprise other than joint stock. Factory labour which covers all forms of enterprise is a much better index. The dependence of Section B for manufactures on the rest of the country is well reflected in the fact that although it contains more than 12 per cent of the population, it has not got more than 3.1 per cent of the factory production power of British India. The more or less complete absence of coal and iron precludes it from most of the important light and heavy industries. Textile industry based on its high staple cotton and chemical industries connected with salt have some prospects if other difficulties like wide fluctuations in climate and weather do not stand in the way. Section C is much more developed industrially, largely due to the incorporation of large non-Muslim areas in the West and the presence of immigrant labour. The fact is that the industrial belt of Section C is really a continuation of its counterpart in Section A and any artificial

severance of the two will mean disaster to both.

These disparities of agricultural and industrial progress have an important bearing on the food resources of the three areas. This has perhaps not much importance in times of assured peace. But when war and problems of defence arise, the issue becomes one of life and death. The following facts relating to the average output of seven staple foodgrains over the three years 1938-40 deserve close attention. The output of Section A amounted to 28,344 thousand tons and it had to arrange for a net import of 1,402 thousand tons more to meet its needs. This means a deficit equal to about 4 per cent of its output. The production of Section C amounted to 9,300 thousand tons and it had to import 531 thousand tons more, i.e. to the extent of about 5 per cent of its output. Section B is a surplus area and out of its total output of 6,848 thousand tons, it could export 1,044 thousand tons, i.e. an amount equal to half the deficit of Sections A and C and twice as much as the deficit of section C alone.

V

The sparse but significant facts stated above should enable us to construct a general, over-all picture of the mutual economic relations and dependence of the three Sections. Section B is relatively a more prosperous area of the country, with a per head income much above the greater part of the country. Its prosperity is based on agriculture served by a fine river-system and a network of irrigation works which cover about 42 per cent of the total irrigated area of the country. An important element in this prosperity is employment in the public services and industries outside this area. In spite of some industrial growth in this Section, it has an important economic problem in retaining and expanding its outlets for the employment of its surplus capital in other parts of the country. Even for its agricultural produce, it must look more and more to markets within India and as the only Section with surplus food, specialisation in this produce offers it large scope for extended agriculture. Section C is a contrast with high density of population and low per head income. The main markets for its agriculture must be

found largely abroad. It is rich in industrial resources but needs capital from outside which has brought in its wake as usual non-indigenous enterprise also. If its industries are to be freed from the domination of foreign capital, its capital supplies from other parts of India must needs be much larger. Section A is limited at this juncture in food resources but has capital and enterprise not only to meet its own needs but to offer to Section C. To Section B and Section C, it offers exports valued at more than 30 crores but receives in return imports from them of about 10 to 15 crores at the most. The jute, tea, wheat and cotton of these Sections which are sent abroad return in a large measure to Section A in the shape of machinery, chemicals, industrial raw materials, etc.

The least disturbing and, in the light of this past history and growth, the most beneficial arrangement for the future would be complete internal free trade among these Sections. The chances and implications of such free trade under the projected political structure will be analysed presently. But it is necessary to point out first that free trade among the three Sections is not quite compatible with individual and divergent trade policies towards the outside world. A trade policy covers

principally movement of goods, movement of capital and perhaps immigration and emigration. If one Section were to impose tariffs on foreign goods while another prefers to admit them free, effective enforcement of the former policy must mean creation of interior customs lines along the land frontiers. If the protected goods arrive in the other Section for further processing and manufacture, it would raise the difficult question how far such goods should enjoy the benefits of free trade or share in the burdens of protection. These difficulties could be evaded by preferring subsidies to tariffs but this may not be always feasible either administratively or financially. Foreign capital will raise even greater intricacies. If Section A alone imposes restrictions on foreign capital or enterprise, they could be easily evaded by seeking asylum in the other two Sections. Emigration and immigration involve questions not merely of economic benefit but also some of the most irrational and explosive human sentiments. Free interchange of citizenship among the three Sections would not be compatible with conflicting offer or denial by them of citizenship to particular foreign nationals.

Man does not live by bread alone and even economic policies are not always or even

largely determined by impartial and objective calculations of economic loss or gain. In matters of food, natural resources, investment of capital and outlet for surplus labour, this country has very close ties with Burma, Malaya, Indonesia, and Siam and the countries of South and East Africa. In 1938-9, Ceylon, Burma, the Straits Settlements, Java, French Indo-China and China took from us exports of more than 21 crores and sent us imports of more than 31 crores. Our exports were made up largely of raw cotton, manufactured cotton and jute—just the commodities which are the staples of our export trade and offer us great prospects of profitable expansion. Among the imports are the vital supplies of grain, pulse and flour and timber from Burma which were valued at about 14 crores. A wise economic policy should cover in its aspirations of self-sufficiency in food not merely the territorial limits of India but these outlying lands as well. Ideologically, advanced sections of her people are looking forward to playing a large and important role in world affairs in co-operation with the Republic of China. It would be easy to make these economic inter-relations grow into a great system of mutual defence. But, it would be well to note that certain sectors of

our population, particularly in Sections B and C, swear to sentimental attachments to the Arab lands. From a purely economic point of view, unlike the other countries mentioned just now, these middle Asiatic countries are not of much importance to us. Aden, Iraq, Muscat, Arabia and Bahrein took from us in 1938-9 exports of less than 3 crores and sent to us imports of less than 2 crores. Our trade with Iran and Turkey is not of much significance and does not find a specific place in our annual trade returns. The composition of our trade with the aforesaid countries does not add to its attraction in any manner. Nearly half of our exports consists of grain, pulse and flour and the rest of miscellaneous articles. The prominent items of imports are Precious Stones which we can dispense with and Fruits and Vegetables the stoppage of which cannot cause more than small inconveniences. There is no natural obstacle from the Indian side as such to the cultivation of closer ties and friendship with the Middle East. But it happens unfortunately that these countries are fast becoming the storm-centre of world-politics and, at the same time, lack the natural resources and social cohesion to be strong and independent. To be drawn into the fast-evolving

political system of the Middle East may well prove the starting-point of liabilities to which there are no limits. The reconciliation of these sentimental attachments with the safety and economic well-being of the country as a whole is one of the greatest tasks set before the political and economic statesmanship of India.

1938-9

MAIN ITEMS

Total (Figures in lakhs)

	Exports	Imports	Exports	Imports
Ceylon ...	509	72	Cotton Manu. (68) Fish (35) Grain, Pulse & Flour (148) Oil Cakes (31)	Seeds (60)
Burma ...	1003	2434	Cotton Manu. (238) Grain, Pulse, etc. (43) Oilseeds (40) Tobacco (82) Matches, Coal & Coke (62)	Grain, Pulse & Flour (120) Teak Wood (199)
St. Settlements	203	413	Cotton Manu. (85) Grain, Pulse, etc. (29)	Spices (194) Oil (44)
Java ...	72	51	Jute (59)	Sugar (29)
Thailand ...	68	9	Jute (52) Cotton Manu. (11)	Grain, etc. (4)

	Exports	Imports	Exports	Imports
French Indo-China ...	68	14	Jute (49)	Grain, etc. (8)
China ...	247	173	Raw Cotton (173) Jute (19)	Cotton Manu. (64) Silk (61) Other articles (39)
Grand Total ...	2171	3166	Cotton Manu. (402) Raw Cotton (173) Grain, etc. (220) Spices (82) Jute (200)	Grain, etc. (1213) Spices (306) Teak Wood (199) Seeds (60) Silk (61)
Aden ...	92	24	Grain, etc. (34) Other (17)	—
Iraq ...	50	46	Other (27)	Fruits & Vegetables (31)
Muscat ...	48	46	Grain, etc. (30)	—
Arabia ...	36	3	„ „ (21)	—
Bahrein ...	42	52	„ „ (25)	Precious Stones (50)
Grand Total ...	268	171	Grain, etc. (110) Other (84)	Precious Stones (68) Fruits & Vegetables (49)

VI

What are the chances of establishing and continuing free trade among the three Sections? Once economic dismemberment takes place, it would be difficult to hold in check forces of economic isolation and separatism. Since Sections B and C are very largely importers of manufactured articles, a common protectionist policy means for them economic burdens for the apparent benefit of the third Section. This is particularly true of Section B which is industrially least advanced. With cotton and wheat as the main ingredients of its economic welfare, cheapness of other goods might well have a strong appeal to this Section. Section C which knows well the far-reaching implications of foreign capital and enterprise might well develop a coolness towards capital and enterprise from other parts of the country as well. The history of our relationship with Burma conveys warnings which should not pass unheeded. If Section B cultivates industrial ambitions of its own—and temporary economic distress is always favourable germinating soil for such ambitions—its main rivals in textile goods and chemicals connected with salt will

be found not abroad but in Section A. In short, the tangible growth of bricks, mortar and machinery of factories might well be preferred to the benefits of territorial specialisation which live and have their being only on the intangible terrain of economic thought. Sections A and C, on the other hand, have some common interests in certain industries and a system of preferences or joint agreements is feasible between them. But this could not cover more than a small economic sector.

Even without policies of restrictionism or economic planning, economic dismemberment must tend in the long run to induce or force economic resources into uneconomic channels. The difficulties which arise now and then as between Native States and British India must now extend to these three fragments of British India. It is idle to expect that commercial legislation relating for example to companies, markets, etc. will follow identical or parallel lines. It is still less likely that in taxation or finance, the three Sections will keep in step. Perhaps, the most acute and burning issues must arise over labour legislation and welfare. In all these matters, the Section which adopts more advanced views and measures will find itself penalised by the unwillingness of others

to follow it. Competition in laxity of laws between component parts of the same State is not unknown to economic history and the result has been always the same—economic loss and disasters. In circumstances like these, it would not be long before self-protection suggests restrictions on movements of capital, enterprise and labour, and restrictions provoke retaliation.

Again, the desirability of the proposed political structure could be tested by inquiring how certain commonly accepted goals of economic policy will work in actual practice when translated from an all-India plane to a new plane created by this economic dismemberment. If Sections A and C succeed in making themselves sufficient in food resources, the most fruitful line of expansion for agriculture in Section B must be abruptly closed. Agriculture in Section B may be forced to contract even. If each Section sought stability of agricultural prices by itself, the financial burden of holding surpluses must fall on each by itself. With Sections B and C both importing iron and steel, coal and coke, cotton piece-goods, chemicals, sugar, etc., planned investment can have but limited meaning for them, while planned investment by Section A will only result in throwing

Sections B and C into dependence on foreign countries. With the prospects of subventions from more prosperous parts to less prosperous parts severely curtailed, social security and labour welfare must make but slow progress, particularly in areas like Section C, whose financial resources have never been too ample.

A most serious proposal of the Cabinet Delegation is to entrust Currency and Banking to the Section centres. It is difficult to overestimate the part which a common currency and banking system discharges in directing economic resources to the most profitable uses and thus maximising the benefit of specialisation according to natural endowments, human and territorial. It achieves this result very largely by establishing a common capital market whether for durable or short-term investment. As there is no risk of capital loss by arbitrary changes in the rate at which capital may be moved out or repatriated home, capital of surplus areas is freely available for areas and enterprises which suffer from its scarcity. Equally important in a country in which large areas specialise in particular crops and the seasonal demand for finance falls in different parts of the year is a large fund of short-term capital on which each may draw according to need. We have also got a banking

system which has developed a network of branches in all parts of the country and has thus freed itself from dependence on particular crops, markets, trades and industries. Its growing strength and stability have grown in no small measure out of this fact. Today, the financial markets of Calcutta and Bombay show great sustaining power even in adverse times largely because the resources supporting them are as wide as the country itself. If our capital markets and banking system are now to be split into three fragments, these elements of strength and progress must disappear and poorer parts suffer more than others because of the undependability of value of money or units of account. It should not be surprising if Calcutta, for example, loses its present financial and trade importance in favour of the adjacent port of Vizagapatam and falls to the status of a provincial city like Madras.

VII

Against all these fissiparous tendencies inherent in the proposed political structure, we have got to set one force which may, in the long run, hold in check the break-up of the economic unity of the country. The Union Centre is created solely to look after Defence. Efficient Defence under modern conditions means several things. (i) Since freedom of trade routes is likely to be gravely imperilled in times of war, there must be an assured degree of self-sufficiency in the primary requirements of life and material resources of military use. The question of food resources mentioned and discussed above is only one of many important difficulties. (ii) Industries, at least some of them, have to be located on strategic considerations. (iii) Economic policy towards the outside world must not overlook the importance of economic collaboration with possible allies and avoidance of too much dependence on possible enemies. (iv) Mercantile marine and port facilities of peace time have to be dovetailed into requirements of naval defence no less than in the case of civil aviation. If to these implications, we add the requisite financial arrangements and control of

communications, it is difficult to see how the three Sections can dispense, in their internal or external policies, with continuous central direction and supervision.

One topic deserves special notice in this connection. It may be desirable and, in the near future, even inevitable to nationalise certain industries on purely defence grounds. This need must be specifically recognised. Indeed, it should not be surprising if defence plays in the ultimate unification of India the same economic part which "interstate commerce" has played in the economic and political growth of the U.S.A.*

*The statistics used in this note are illustrative and not exhaustive. It is rather strange that no serious effort is yet visible in authoritative quarters to collect the material which must form the basis of final decisions. Great difficulties are caused by the treatment of Calcutta, Karachi and Bombay as separate areas for purposes of inland exports and imports—particularly in the case of cotton and jute. Prices for evaluating the quantities present another set of difficulties. As far as possible averages for many qualities and two or three years were used.

VIII

To Adam Smith, we owe the suggestive sentence, "Industry is limited by Capital." In analysing the conditions of Increasing Returns, Professor Allyn Young in his most significant contribution to economic thought improved on this pithy remark and said, "Industry is limited by markets." It is indeed more than probable that expansion of markets rather than inventions was the dynamic cause of capitalistic industry. But for the trade routes to India and China in the East and the Americas in the West, England might have never become the workshop of the world during the earlier part of the 19th century.

It is relatively easy to grasp how economic prosperity rises and falls with the size of markets. It is not equally easy to realise how the achievements and prosperity of individuals and communities depend on the size of the political and economic structure of which they are members. It is an even more subtle truth that in a large political and economic community, the smaller social groups must in the long run reap benefits out of proportion to their size. Just as one mile length of railway increases the

volume of traffic by the square-mile area it commands, the opportunities of individuals and smaller social groups multiply in geometrical proportion to the size of the total political and economic community among which they live.

Moral and mental qualities are a great cause of the rise and fall of individuals and communities. Fortunately, these are not the monopolies of any particular races or communities. In spite of high and loud claims at many stages of human history, it is yet to be proved that capacity for progress runs conspicuously within demarcated or demarcable social limits. "Innate" moral and mental endowments offer some limited basis for specialisation among individuals, but as a cause of different degrees of progress among social groups living within the same general environment may be left entirely out of account.

For propagation of "inherent" biological efficiency or fulfilment of purely "social" needs, a social group of a few lakhs is probably as well suited and sufficient as a group running into millions. "Social" relations in a community of a few thousands are not less intimate or satisfying than those in much larger communities. Sheer physical space limits in these

matters the horizon of our physical needs. But such physical limits do not hold good in the case of other human ambitions or standards of life.

When an exceptional individual from a small social group rises to a position of distinction and power in a large community, his distinction and power are not in proportion to the social group. They are in proportion to the size of the whole community. When a business or enterprise grows out of the initiative of a few individuals, the size and therefore economic opportunities created are not limited to the resources of the social group to which they belong. The business or enterprise soon draws to itself the support of the material resources of the whole country and community. The Parsees, for example, hold a predominant place in many leading manufacturing and banking concerns of this country. But these concerns have behind them material resources drawn from all quarters of this vast land. The positions of power and opportunities of profit are thus so many that it is not surprising that after every eligible Parsee is absorbed, there still remains a balance to be offered to others. The pessimists will perhaps be reminded in this of the parasites who prey and live on bodies

much larger than themselves. But the optimists will see in this situation human endowments and abilities reaching fulfilment in proportion to the scope offered.

It used to be a matter for surprise and remark that a Parsee beggar does not exist. It should have been a more appropriate object of observation that so very few Parsees are seen in the humbler walks of life—that so very few Parsees are to be seen as scavengers and fishermen, hamals and porters, waiters and cooks, chauffeurs and barbers, craftsmen and vegetable sellers, etc. But this is because, living in the midst of a vast community, Parsees find opportunities of more profitable employment out of proportion to their numerical size. If tomorrow Parsee commonsense were overwhelmed by appeals of self-contained existence or economy, a total disaster must ensue. The present lucratively employed labour must become surplus to the opportunities of such employment—and Parsee scavengers, barbers, etc. must make their appearance.

To seek protection for minorities and smaller social groups in curtailment of markets and economic structure is therefore a counsel of self-destruction. Proposals to break up the economic unity of India are to be deprecated—

most so from the standpoint of the smaller groups themselves. What the smaller groups need most is better organisation and education—and above all the ambition to dare and to do in the arts of peaceful life within the limits of a vast community what the inhabitants of a small island called Great Britain have dared and done during centuries all over the world, in many and varied spheres of life, some of them worthy of praise and others not so worthy of praise and imitation.

In the Press

Publication Date: - **March 1947**

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