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RECONSTRUCTION OF FOREIGN TRADE IN A DEVELOPING ECONOMY

PROF. BAIDYANATH MISRA

Foreign Trade and Economic Development :

The significance of international trade in developing an internal economy is now sufficiently recognised. The traditional theory of comparative advantage explains how when a country opens up to international trade, the point of production equilibrium moves along the given production possibilities curve and is fixed at a point on the curve. Though the curve represents the capacity to produce, foreign trade does not seen to shift the curve. International trade only raises real income or welfare by allowing the point of consumption equilibrium to move to a community indifference curve of a higher order. But the basis of economic growth is capacity to create wealth and considered from this angle, the traditional theory of international trade does not make much contribution to economic growth.

But the analysis of Kitamura and Robinson shows that foreign trade has a dynamic aspect in the sense that it can create capacity to increase wealth[1]. In the first place, foreign trade leads to a concentration of economic activity where productivity is likely to be very high, thus raising the rate of growth in national income and power to accumulate. Secondly, foreign trade can increase the economies of scale, both internal and external, which would not be possible within the narrow confines of a small market. Switzerland is a classic example of a small country with high productivity due to improvement in foreign trade. The third possible channel of growth is the establishment of enclaves of higher industrial efficiency introduced first through foreign trade, which have spread their benefits progressively over wider areas until a whole nation is carried towards an accelerated growth. India is an example of development of such enclaves or leading sectors created first by foreign trade and subsequently developing as manufacturing centres spreading their benefits to other areas. Fourth, foreign trade is the principal vehicle for transmission of progress which may take the characteristics of increase of wants for products leading to an increased desire to produce, or introduction of improved tech-inques of production or stimulation of local enterprises to produce indigenous products or it may be all of these. Be that as it may, foreign trade opens up a country to world market and enables it to learn from outside experience to use its resources properly and judiciously for internal develompent.

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1. See Hiroshi Kitamura, Foreign Trade Problems in Planned Economic Development, and Austin Robinson, Foreign Trade in a Developing Economy, in Economic Development with Special Reference To East Asia, ed. by Kenneth Berril, London, Macmillan, 1964,

Finally, foreign trade helps economic growth through the expansion of exports. The relation of exports to national income is significant, for it is foreign earnings that determine the expenditure on imports. Since the marginal propensity to import is very high in a developing economy, the only effective way by which the difficulties of balance of payments can be overcome is by promotion of exports. In countries like the U. K. and Japan the standard pattern has been one of acceleration in the rate of development accompanied by a high ratio of exports to national income. Joan Robinson equates exports with a capital goods industry, because exports are payments for acquiring capital goods through imports. It is obvious therefore that capital accumulation is not merely a matter of domestic savings; it is a question of foreign trade and balance of payments.[2]

This does not, however, mean that foreign trade has always facilitated the development of underdeveloped countries. The analysis of Prebisch, Singer, Myrdal and Hla Myint shows that economic develompent has not always overflowed from Europe and North America to Asia, Africa and Latin America by means of international trade. On the other hand, a larger part of the gain from international trade has gone in favour of developed countries, accelerating the process of their development without creating a process of change in the economies of underdeveloped countries. However, the underdeveloped countries are no longer tied to developed countries. They know the benefits of international trade and have the mechanism to regulate foreign trade to derive some of its benefits. In modern planned economy, the gain from trade cannot be one-sided, and let it be noted here that no developing country can plan its economy without taking into account particularly the advantages of export promotion. It is now recognised that development based on exports resolves balance of payment crises, while development based on production for the home market creates balance of payment crises. As Lewis has said, It is now almost a rule of thumb that, in the absence of foreign borrowing, the possible rate of economic growth is limited by the rate at which you can increase net foreign receipts, whether by exporting more, or by substituting imports. If one neglects foreign trade in one's planning, either the plan fails, or one is driven to ever-tightening restrictions on imports[3].

Trend of Foreign Trade :

If it is agreed that expansion of foreign trade and particularly the growth of exports exercise a decisive influence on the economic growth of a particular country, what has been the recent trend of foreign trade of developing countries? The following trends are significant for their deleterious effect on the economies

2. J. R. Hicks, " Reflections on the Economic Problems of Ceylon ", Quoted from Hiroshi Kitamuras article, op. cit.
3. W. Arthur Lewis, 'Economic Development and World Trade' in Problems in Economic Development ed. by E. A. G. Robinson, Macmillan, London, 1965.

of the countries in question. The first is that the growth rate of poor nations has been much lower than the 5 per cent envisaged for the U. N. Development decade and as such the gap between the rich and poor nations has actually widened instead of narrowing. According to one estimate, the rich nations have been adding annually 60 dollars to their per capita income but the poor nations could add only 2 dollars.[4] This slow growth of income has reduced the size of their foreign trade. As has been said by Nurkse, a country gains in foreign trade, other things being equal, as its national income grows. Poverty makes poor customers and inefficient suppliers. For example, while world exports grew at an average annual rate of 7·8 per cent during the development decade, the export of poor nations, excluding oil exports, increased at an average rate of 4 per cent only. In case of India also the traditional produce exports which constitute about 95 per cent of total exports remained stagnant while the remaining 5 per cent of newer exports showed tendency of growth.[5] This shows that the vast expansion in world trade simply by-passed the poor countries. And as Maizeles has said, the post-war financial difficulties of the primary producing countries—and particularly those embarked on industrialisation programmes—stemmed very largely from the failure of their exports to keep pace, either with world trade in total, or with economic activity in the industrial countries which are the main consuming areas for primary products.[6]

Secondly, unfavourable terms of trade also aggravated the economic condition of the poor countries. For example, while the prices of products exported by poor nations declined, those exported by rich nations went up so that there was an annual loss for the former of $2\frac{1}{2}$ billion dollar in purchasing power, which represented nearly half of the flow of external public financial resources to them.[7] This aggravated the indebtedness of the poor nations, whose debt service payments went up from 0·5 billion dollar in mid—1950's to 4 billion dollar in mid—1960's equalling all aid of the grant type, and is expected to go up to 10 billion dollar by 1975. Even aid went down from 0·85 percent of G. N. P. of rich nations in 1961 to 0·62 per cent in 1966.

4. See Dr. S. R. Sen, From Algiers to Delhi, A Statesman Supplement on the second U N C T A D.
5. See S. J. Patel, 'Export Prospects and Economic Growth : India' in Essays on Economic Transition, Asia Publishing House, 1964 for the growth of exports in India
6. See A. Maizels, 'Recent Trends in World Trade' in International Trade Theory in a Developing World', ed. by Roy Harrod, London, Mac. Millan, 1963.
7. The commodity terms of trade have been unfavourable to primary producing countries due to (*a*) low income elasticity effect, (*b*) domestic supplies replacing imports, (*c*) raw-material saving technology and shifts in composition of many factures production (*d*) growth of synthetic substitutes and better utilisation of scraps and (*e*) supply deficiencies. Prebisch, Singer and a number of others have discussed different aspects of these problems. However, see M.L. Dantwala, "Commodity Terms of Trade of Primary Producing Countries", in "Problems in Economic Development', ed by E. A. G. Robinson London Mac.Millan 1965 for an analysis of these factors.

In case of India, the burden of repayment of capital and interest on foreign loans, which was less than 2 per cent of the export earnings towards the end of the second Plan is expected by the Planning Commission to rise during the sixties to nearly a fourth of the present export proceeds.

Thirdly, the slower rate of growth in the volume of world trade in primary products than in manufactures which has been a notable feature of world trade since the mid 1930's has reflected in strains on balance of payments of the poor countries. And in many of the developing countries, the balance of payment barrier generally appears before the inflation barrier and as such, the balance of payment barrier has been something distinct from a mere manifestation of inadequate savings or inflationary fiscal and monetary policies. Patel therefore contends that in such a situation increase in domestic savings by the relevant amount or anti-inflationary fiscal and monetary policies would not eliminate the deficit in payments.[8]

The trend of the economy also shows that the primary producing areas of the world over the past decade have been dependent to a considerable extent on increased borrowing (rather than on increased exports or improvement in terms of trade). If exports fail to expand appreciably in the coming decade, it is apprehended that the growing burden of interest and debt repayment will severely restrict the further expansion of imports for development purposes.

Planning of Foreign Trade :

It follows therefore that an all-out effort should be made to reverse the disturbing trends so as to promote expansion of economic activity in developing countries. First, the poor nations must make vigorous effort at increasing production of exportable goods and making use of available resources in an optimum manner, avoiding waste and inefficiency and increasing the quality of commodities so that such commodities can have a good market in developed countries. In fact, the rate of growth of exports has to be atleast sufficiently rapid to cover the rate of growth of imports that necessarily rise in the process of industrialisation, and this rate of export growth must be considerably higher than the generally accepted rate of growth of national output. A declining export ratio will not only aggravate the balance of payment difficulties; it will also produce a stagnant type of equilibrium with severe restraints on the pattern of planning. Three things should therefore be done to increase the production of exports. First, there should be sufficient investment in export industries to increase quality production supported by a policy of restraint in domestic consumption of exportable goods. Second, inflation should be avoided

8. See I. G. Patel, Trade and Payments Policy for a Developing Economy, in "International Trade Theory in a Developing World", ed. by Roy Harrod, Op. Cit.

in order to promote exports. Third, incentives have to be given to export-industries to improve their competitive capacity. Export incentive is essentially the same thing as 'infant industry protection and the need for it is recognised even by advanced countries.

The developed countries will also have to play a significant role in improving the economy of the underdeveloped countries and narrowing the gap between the rich and poor nations. They have to create conditions for importing much larger volumes of products, both primary and manufactured, from the poor nations through measures like removal or reduction of tariff and non-tariff barriers on primary commodities, granting of a general tariff preference without asking for reciprocal concessions to imports of manufactures and semi-manufactures from poor nations and agreeing to commodity agreements for ensuring remunerative prices and steadily expanding markets. Since it has been estimated that the rich nations, requirements of primary products exported by poor nations are expected to grow relatively slowly, about 2½ per cent per annum, while the latter will have to step up their export earnings 3 to 4 times that rate if they are to have a reasonable rate of growth, unless the rich countries voluntarily come to the assistance of the poor countries the latter cannot possibly overcome the hurdles. Further, the rich nations should also increase the rate of aid to the extent of about 1 per cent of G.N.P. per annum so as to provide facility for the development of poor countries. This is not a high figure in view of the fact that citizens of rich nations are paying almost 20 per cent of the G.N.P, as taxes. Thirdly where aids are tied, there is decrease in real worth of aid to the recipient countries by increasing the costs of purchases. It is estimated that the real value of tied loans in some cases has come to 30 to 40 per cent less than the nominal value thus resulting in high repayment obligations. The Economic Adviser to Pakistan's Planning Commission has estimated the excess cost to Pakistan, from these effects of aid-tying. as nearly 14 per cent of the aid flow to Pakistan. And his estimate is considered conservative. It follows from this that aids should be united or if the donor countries insist on tying aid outflows, they should agree for making repayments tied.[9]

Another field in which action is needed is to develop mutual trade relationship among the poor countries. Take for example the trade relations of India with its neighbours like Pakistan, Nepal, Ceylon, Burma, Malayasia, Singapore and Indonesia. The history of trade relations between India and these countries from the period 1955-56 to 1965-66 shows that there has been a deterioration in trade, imports have declined from Rs. 43-31 crores to Rs.41·51 crores and exports from Rs.68·89 crores to Rs.54·06 crores. If these countries can develop a system of regional co-operation and leave to each country what it can produce

9. See Jagadish Bhagwati, "Tied Hand and Foot", A Statesman supplement on the Second U N C T A D.

best, not only will there be improvement in trade relations, but the economic development of these countries can be organised without much strain. What is needed is conscious planning in investiment programme so as to reconcile the conflicting interests of neighbouring countries. There is also great scope in increasing trade with socialist countries. During. the last ten years trade between developing countries and socialist countries has grown considerably. For example, exports from developing countries rose from 575 million dollar in 1955to 2350 million dollar in 1965 and imports from the socialist countries from 625 million dollar in 1955 to 2910 million dollar in 1965. This represents an average rate of growth of 15 per cent for exports and 16 per cent for imports for the decade 1955-65, about double the rate of the world trade and treble of that of the poor countries. It is estimated that the socialist countries are planning to raise their imports from the developing countries from around one billion dollars in 1960 to about 10 billion dollars by 1980. It is also contended that because socialist countries had hitherto given high priority, a big part of the increased imports from the rest of the world would be composed of consumer goods-food products and light industry product.[10] But this potential can be achieved only with detailed planning in foreign trade, commodity by commodity, country by country and formula by formula.

Along with export promotion, there should also be vigorous efforts to reduce imports. From the point of view of balance of payment strength, export promotion is just as important as saving on imports. Import restriction will save foreign exchange, curtail the demand for nonessential or luxury imports and prevent the working of the international demonstration effect But a general restriction of imports will probably do more harm than good for a developing economy. Imports are necessary for development and therefore a change in structure of imports is more important than general restriction on imports. It follows from this that the structure of imports has to be adjusted to the paramount need for capital accumulation and technical progress. Secondly, import restriction should be followed with investment in import substituion industries, otherwise any increase in production for the home market might put a strain on the balance of payments by increasing the demand for foreign goods. But here again, import substitution should be used to build up the industrial capacity of the country instead of substituting the import of less essential items by greater domestic production of the same commodities.

10. Asok Rudra however thinks that the socialist countries would reach a saturation in their demands for primary products much earlier than the developed capitalist countries did, for they would be in a position to use synthetic substitutes which were not available in the 19th century or early 20th century. See Hopes and fears about Socialist Trade in A Statesman Supplement on the Second U N C T A D. Even so, there is plenty of scope to utiise the present opportunity for improving the trade balance of poor nations.

In fact, in order to secure the economic advantages of foreign trade, a highly selective interference with the structure of imports and exports will have to be developed in a developing economy. For example, a tariff system developed on a selective basis will facilitate the adaptation of the import and export structure to the need for greater technical progress and capital accumulation. In other words, while the principle of selectivity will emphasise the productivity criteria, a general policy of protection or devaluation may become a mere shelter of inefficient production and lead to retaliatory measures from the developed countries. As Kitamura has said, the dynamic effects of trade interference ultimately depended on what happened in the domestic economy in the fields of investment and technical progress. Therefore, the principle of selectivity which is one of the important characteristics of rational planning should be developed in the field of foreign trade to make the economies of underdeveloped countries flexible and responsive to promotional measures.

INFLATION AND ECONOMIC DEVELOPMENT

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Economic development has now become a challenge for the underdeveloped countries and great efforts to mobilise the dormant resources, both human and capital, through various ways are made to accept the challenge. When such huge national mobilisation is made to accelerate economic development, certain subsidiary economic consequences are bound to occur in the process and one such occurrence is the rising price level which is generally called inflation. Almost all the developing economies of to-day are experiencing inflation in their progress towards prosperity which has become one of the greatest obstacles to development. The aim of these countries is to achieve economic betterment and stability which will provide the material soil within which human dignity and political freedom can grow.[1] But there is one school of thought which is more radical in its approach, which holds that there are two alternatives open for the developing economies, namely, "creeping inflation and economic growth" or "price stability unemployment". "In this way creeping inflation is given respectability by association", while price stability is subject to "guilt by association".[2] Under these circumstances, an attempt is made within the limited scope of this paper to examine the theoretical possibilities of whether or not economic development with stability can be attained.

Though rise in price level is the indicator of inflation, they do not necessarily become one and the same thing. The accepted version of inflation provided by Keynes holds that only after the attainment of full-employment, an excess of aggregate demand over the available output at current prices will lead to inflation. But though the developing economies have not attained the stage of full-employment, and though there are vast virgin resources to be exploited, yet these countries experience the malady of inflation in the process of development. The version of Keynes has lost its significance in the context of these countries.

Inflation in these countries can be explained by the "Demand-pull" and the " cost-push " theories. The former theory holds that the increased income

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1. Walter W. Heller—Fiscal Policies for underdeveloped countries—Readings on Taxation in Developing countries—Ed. by Bird and Oldman—p.5.
2. Jules Backman—The case against creeping inflation Readings in Economics—Ed, by Samuelson, Coleman, Bishop, Saunders—Fourth Edition—p.90.

arising out of excessive spending on developmental programmes cause increase in demand for consumption, specially for food articles, as the propensity to consume is high in these countries. The increase in demand cannot be matched by the increased supply of those goods due to certain structural rigidities and hence the price level registers a sharp rise. The "cost-push" theory holds that as the prices of the consumption goods, particularly of food, go up, it leads to high cost of living of the workers causing thereby demand for higher wages. When higher wages are paid, the cost of production goes up resulting in the rise in price level. As a matter of fact, cost and demand elements appear in the real world not in their pure forms, but in various combinations with each other.[3]

Wages and prices are the most sensitive pockets of the economy and one of the major features of these variables is that they are substantially more sensitive to increases in demand than they are to decreases. "The level of prices depends on the "Co-officient of price adjustment to costs or" the Price-cost elasticity". This refers to the proportion of the absolute rise in wages and other costs which the producer will pass on in the form of higher wages".[4] "The real cause of inflation is the abdication by the monetary authority of their responsibility for maintaining stable monetary condition".[5] Here comes the effective role of monetary policy to curb inflation. Once the wage-price spiral starts without timely interruption, it will tend towards hyper inflation which will be beyond the control of the authorities.

From the analysis of the causes of inflation, in the context of the developing economies, it is found that the structural rigidities are the root causes of inflation. These rigidities in the form of lack of productive equipment, both capital and technical means, make it impossible to achieve fuller utilization of resources for increased production. Hence the imperative need to remove these bottlenecks calls for capital formation, both in the government and private sectors of the economy. So the role of Government in the process of capital formation assumes importance. In this context, the effort of the government should be directed toward maximising savings, mobilising them for productive investment and canalizing them so as to serve the purposes of a balanced development programme.[6]

But for increased capital formation or increased investment, an increased saving potential should be generated in the economy. As the underdeveloped countries are entraped in the vicious circle of poverty, it is very difficult to raise saving for capital formation. Under these circumstances, saving

3. S. Gosh—Inflation in an underdeveloped economy—P.2
4. K. V. G. Gowda—Fiscal policy and inflation P. 58.
5. A. E. Roos—Industrial Relation conference, 1953, M. C. Grill-PP. 100-101.
6. Walter W. Heller—Op. Cit. P. 7.

for investment can be generated at the cost of consumption. If this method of raising saving is accepted, inflation can help the economy as it generates forced saving. As in the period of inflation prices rise faster than the rise in wages and incomes, the general people will be forced to consume less and thus a saving is generated for further investment. Those who believe in this type of saving generation, neglect the aspect of distribution which also assumes an important place in the process of development. There is also no guarantee that such types of savings will be invested for general development, rather there is every likelihood that such savings might go for conspicuous investment and thereby create a wide gap between rich and poor. Hence Prof. Musgrave rightly observed that "forced saving through inflation may be used to transfer resources to capital formation, but the resulting choice of investment is insufficient at best, and the allocation of the burden inequitable. The better approach is to transfer resources to capital formation without inflation, and this requires a transfer of demand rather than an addition to total demand".[7]

Uncontrolled inflation destroys the saving habit of the people by encouraging care-less spending due to the fact that people lose faith on money which is fast deteriorating in value. Besides, if people feel that the inflation will continue for long, there might be outflow of capital to foreign countries. Thus "a fairly high degree of inflation not only hinders capital accumulation, but what is worse, actually destroys the available capital resources or drives them out of the country"[8]

The role of foreign capital in the context of development of the underdeveloped countries cannot be exaggerated. It is a welknown fact that these are the primary producing economies and they depend heavily on the developed countries foi machineries and even for technical know-how. These are the basic needs to build the infra structure of the economy. Hence the flow of foreign capital plays an important role in capital formation. But inflation does not create the atmosphere to attract foreign investment rather it discourages the flow of foreign investment which is particularly important to underdeveloped countries.[9]

The argument offered in favour of inflation establishes a correlation between profit and investment. It is true that during the period of inflation the ratio of profits to national income rises and it is piously hoped that such profits will be reinvested in productive lines. But there is every danger of this profit being invested in speculative and luxurious production instead because the profit margin in these lines is more alluring to businessmen as profit

7. Musgrave—Fiscal dynamics and growth—The Theory of Public Finance—P. 497.
8. D. Bright singh—Inflationary Price trends in India since 1939 P. 20.
9. Ibid—P. 24.

is the guiding motive of their business. Inflation may " channel much of the resulting investment into real estate, inventories, foreign exchange, and other "riskless" holdings designed to reap capital gains from socially unproductive undertakings ".[10]

Although inflation causes maldistribution of wealth, encourages speculation, yet its appearance in the process of development can not be checked or totally denied. The most effective agent of bringing development to these countries is the government whose prime duty is to build the infra-structure of the economy in the form of building social over head capital like roads, buildings, dams, railways etc. and creating social services like education and medical facilities. All these require huge amount of public expenditure. This expenditure encourages excess spending which is the prime, indeed the only, cause of inflation, that the developing countries experience to-day. If the level of monetary expenditure is restricted " in the face of independently rising prices and wages, such restraints lead to unemployment and idle industrial capacity ".[11]

Here we are caught in a dilemma. If inflation in the process of development is a must and if its part cannot be denied, it is necessary on the part of the government to follow suitable monetary and fiscal policies to keep inflation under control and canalize resources into productive lines. "The danger of an inflationary situation getting out of hand is as real as ever before and the need for maintaining a stable price level in the context of a developing economy with a welfare state as the goal should engage the attention of publicists and statesmen ".[12]

Many developed countries had experienced inflation in the process of development. There is nothing to be astonished about it, because huge amount of expenditure is necessary to start development. But it cannot be taken as plea for letting the inflationary forces to operate freely. The tragic experience gained by the developed countries should guide the policy measures of the developing countries.

Some support inflation on the ground that it makes the economy strong enough to resist the recessionary phase of the business cycle. As inflation brings rapid growth, the economy's resistance power to absorb the shock of further contraction develops also. " In view of the growing capacity of the economy to resist contraction, one must reject the view that a stable price

10. Walter W. Heller—Op. Cit. P. 14.
11. Charles L. Schultze—Explaining and treating creeping inflation—Readings in Economics Op. Cit. P. 95.
12. D. Bright Singh—Op. Cit. P. 1.

level is a necessary condition to the maximum rate of growth .[13] But this argument is not convincing, as there is no guarantee that the inflation will always be accompanied with development due to the doubts raised in our earlier discussion.

But this also does not lead to the conclusion that price stability is the only answer to the problem. Though price stability does not involve such major risks, its slow growth potency can not be denied either. Jules Backman has rightly observed that " there is no magic in a stable price level "and it is not" a cure all for the poblem of business cycle.[14] Hence no extreme view should guide the process of development and a middle course—a small doze of inflation—should be followed keeping the vigilant control of inflation in view. Hence it entails a very cautions policy.

The origin of the inflationary forces lies in the short supply of food articles in the developing economies. The increased spending on developmental works puts a heavy pressure on the agricultural sector in the form of heavy demand for agricultural goods. Hence the circumstance demands that the agricultural production should increase pari pasu with the increased income generated in the capital sector. If a balance could be struck between the two, growth without inflation could be possible. But so long as the balance is not achieved, or so long as the income generation in the industrial sector runs ahead of the agricultural production, inflation is inevitable. Hence increased productivity in the agricultural sector is emphasised.

This solution, though a major one, covers only a part of the problem. People not only demand food, but also other necessary articles which come from the industrial sector. So production of manufactured goods should also increase and match the increased demand for them. Hence increase in industrial productivity along with the agricultural productivity should be the goal.

The cost aspect of production should engage the attention of the producers. As " cost-push " aggravates inflation, costs of production should not be allowed to rise. This proposition calls for a suitable wage policy because it is seen that the increased wage rates cause the costs of production to move upwards. Under these circumstances, wage rates should be in conformity with the productivity of labour. Wage rates should increase with the increase in productivity. " Efforts should be made to speed the adaptation of the new methods of management that automatically reward workers for

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13. Summer H. Sliehter—The case for creeping inflation-Readings in Economics, Op. cit. p. 88.
14. Jules Backman—Op. Cit. P. 93.

helping reduce the ratio of labour costs to sales income. "[15] This policy can be effective, if it accompanies a suitable price policy guaranteeing the labourers that the cost of living will not rise. Hence, a well-planned price policy both for the agricultural and industrial goods is essential.

To assure growth without inflation both fiscal and monetary policies assume importance as they affect the level of aggregate demand and supply. These policies should be so framed that both the sides can be kept under control and thereby inflation can be checked,. It is thought that during the period of inflation, rates of taxes, both direct and indirect, should be increased, public expenditure should be restricted, increased money supply should be stopped and a surplus budget should be aimed at. But the real answer does not lie in such policies . If all these things be done, instead of curing inflation, it will retard economic growth. What is needed is that the policies should aimed at increased production, mobilisation of savings in productive lines, generation of savings and investment and mobilisation of resources to the fullest extent possible. In this context, the principle of incentive taxation and curtailment of expenditure may be practised for the successful control of inflation.

For the successful operation of tax policy, the tax rates should be revised from time to time and it should go hand in hand with the change in national income. Mr. Kaldor regretted that in India "the tax revenue does not automatically rise in yields with the increase in national production and income—which is a common feature of the tax systems of the western countries[16]". This policy if executed, will lessen the excessive spending capacity of the people and hence the inflationary tendency will be checked to a great extent.

In under developed countries, inflation occurs mainly due to deficit financing which is generally met by creation of money i. e., by printing notes. We cannot deny deficit financing altogether but what is given emphasis here is that the borrowing policy should be so designed that it will neutralise the inflationary effect of the deficit financing. " The success of the borrowing programme as an anti-inflationary device depends on its effectiveness in inducing higher savings and curtailing spending to such an extent that the private sectors of the economy would not try to bid up the prices of goods and services".[17]

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15. Sumner H. Slichter—Op. Cit. P. 89.
16. Indian Tax Reforms=Report of a Survey by N. Kaldor Ministery of Finance, Government of India, 1956.
17. K. V. G. Gowda—Op. Cit. P. 149.

From the above analysis it is clear that there is no reason to believe that inflation and development always go together. Growth with stability can be maintained if the policy measures suggested are sincerely executed . Although inflationary tendency is inherent in the process of development and a mild dose of inflation is essential to gear the productive machineries to be operated in its full capacity and to mobilise resources to achieve full employment, yet it cannot be left to aggravate. " Unless we succeed in laying the ghost of instability, chronic slump and snowballing inflation, economic growth will be in jeopardy. Business, labour and agriculture must of course attempt to pursue price and wage policies aimed at maintaining a stable, high employment economy . [18]-

18. Paul A. Sarmelson—Economics—Chap. 18, p. 346,

WORKING OF PUBLIC UNDERTAKINGS IN ORISSA

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Indian Economic Service

In an economy where the Schumpeterian enterpreneurs are conspicuous by their absence, developmental activities and the programme of industrialisation have to be initiated by the State itself. Further, the limited supply of enterpreneural skill is being discouraged because of immobility of resources, scanty supply of capital and above all " market imperfections".[1] In a welfare state there arises a necessity of providing " basic goods and services to the society which the private sector cannot. The industrialisation in a poor region is mostly the responsibility of the public authority. A new role is added to the armoury of the public sector, i.e., providing surpluses to the public revenue in augmenting resources for developmental expenditures. But it is the efficiency of public enterpises which justifies its primary presence in an economy. Mere growth of public sector without any tangible contribution to the economic and social welfare sounds redundant and superfluous.

In the sphere of private enterprise the usual yardstick of measuring efficiency is their profitability, present and future. Of course, this is not the only criterion of judging their performance. Other considerations such as productivity and labour relations, management and research, may from time to time influence, directly or indirectly, judgements about the performance of commercial companies. The making of profit as the sole objective of private business concerns is facilitated by the 'price-mechanism .[1]

On the other hand, the legal obligation of the nationalised industries is only to conduct their undertakings in such a way as to avoid making a loss, taking one year with another. There is no " prohibition against making a surplus, " or there is no inherent objection to public enterprise " being conducted on a profitable basis ".[2] Profs. Sargrant and Gilbert Walker, however avocated profitability as a valid test of efficiency in the public sectoı. But the " surplus " should not arise out of exploitation, should take social cost into account, and should result from a small margin on a larger output.[3] How to operate efficiently to make profit cannot differ from enterprise to enterprise merely on the ground that it is in the private or public sector. The divorce of management

1. Meir & Baldwin : Economic Development, p. 316.
2. W. A. Robson : Nationalised Industry & public ownership P. 413.
3. S. Florence & Walker : Efficiency under Nationalised and its Movement, in problems of Nationalised industry, ed. by W. A. Robson p. p., 195-7.

from ownership has gone so far in the large corporations in the private sector that their " problems of efficient management are becoming more and more similar to those of the public sector [4] One is the notion that what the public sector produces should be supplied cheap. But it is a " national waste to sell power cheaper than its costs "[5] Profits are to be the tests of efficiency, for they not only create a self-financing position for the undertakings themselves but also contribute and facilitate industrial development.[6] The theory of " no-profit-no-loss " in the public enterprise is particularly inconsistent with a socialist economy and if pursued in a mixed economy it will hamper the evolution of the mixed economy to a socialist society .[7] The Taxation Enquiry Commission also is of this opinion. The creation of surplus is significant in economically backward country. Public enterprise fostered at state expense may play a role in financing economic development.[8] Plough-back from the public undertakings is a " sine-qua-non of rapid capital formation."[9] Thus creation of profit is a fundamental or " rough-and-ready measure" [10] of efficiency of public enterprises. The price policy has to be worked out on " commercial lines "[11]. In this process, the HMT has already earned legitimately a great reputation. Further, in India, there is an additional reason for public enterprise making profits which permit a reasonable degree of self-financing. Public enterprises produce in main intermediate goods and services which are supplied to private enterprises "[12] Hence profits are not really disallowed, but tend to be " concentrated in the private sector of the economy at the expense of the public sector."[13] It, therefore, seems, that, particularly in a less developed economy, there is a "strong case for some profit making on the part of some public enterprises ".[14]

It is also agreed that profit is the " rough-and-ready " and acceptable yardstick of measuring efficiency of the public undertakings. Baring certain exceptions, the profits are, after all, "an indication and measure of efficiency and they are also a reflection of the state of public mind."[15] The annual accounts of public undertakings may provide a guide to efficiency, however,

4. C. Subramanian : The Working of the Public Sector; Ed. by V. Ramanadham p. 3.
5. Ibid. p. 3.
6. B. Mishra : Fiscal Policy in the context of Planning p. 226.
7. V. K. R. V. Rao : Note on Prices, Income, Wages & Profits in a Socialistic Society, Economic Review, V. XI, No.6-7, July, 1959.
8. Report of the Commission Vol. I 1953-54 p. 200.
9. R. N. Tripathi : Public Finance in under developed countries p. 303.
10. A. H. Hanson : Managerial problems in public enterprises p. 94.
11. K. S. Sonachalam : Financing of public enteprise in the working of public sector ed. by V. V. Ramanadham p. 30.
12. I.G.Patel, discussion : in the working of public sector : ed. by V.V. Ramanadhan p.71
13. A. H. Hanson op., cite., p. 132.
14. Ibid., p. 133.
15. T. R. Sharma : Working of the state Enterprises in India., 173.

imperfect may be.[16] If grave financial losses are sustained in an enterprise, the situation reveals gross inefficiency and *vice-versa*. However, to the consideration of profit, factors like (*a*) growth in productivity (*b*) growth in staff-employed, (*c*) Industrial morale and goodwill and (*d*) a lower unit cost, must be taken into account.

Thus public enterprises have to be efficient, if they are to play the accepted and desirable roles in the process of development in an economy. The financial conditions and mostly the creation of profit or surplus should be the measure of efficiency. In the light of the above statement, one likes to probe deeply into the state of a few public undertakings in Orissa.[17]

II

In Orissa the public sector enterprises are set-up with the objectives of (*a*) the utilisation of the rich resources of the state; (*b*) the creation of an awareness concerning industrial development; (*c*) the desire to promote entepreneur-ship and capital formation within the state; and (*d*) to reduce the State s complete dependence upon agriculture.[18]' All these purposes conform to the ecoomic, commercial and social objectives of public sector enterprises in an economy.[19]

The social and economic objectives being left to the discretion of the Government, the commercial objectives of public undertakings naturally centre around its capacity to earn adequate profits on the investment made, in precisely the same way as for undertakings set up in the private sector. In an economy like Orissa, where the limited revenue circumscribes the size of the investment activity, there is a strong case for public undertakings to earn sizeable profit. Instead of wasting the scanty resources, the objective should be to have better and profitable (efficient) utilisation of resources. But this factor is sadly neglected in all public enterprises in Orissa and the few units which have actually made a profit, have virtually done so despite themselves. There has been continuous loss in almost all undertakings as revealed in their Annual Reports. The cost of production is unsually high. The financial loss and the failure to realise the commercial objectives are revealed in the consolidated balance sheet and consolidated working results, given in the Annexure 1 (Tables I & II).

16. Ibid., p. 173.
17. In this paper the following public undertakings are taken into into consideration, for they are specifically reviewed and evaluated by the recent Lokanathan Committee (*a*) The Industrial Development Corporation of Orissa Ltd., (IDC); (*b*) The Orissa Mining Corporation Ltd. (OMC); (*c*) The Orissa State Commercial Transport Corporation Ltd. (CTC); (*d*) The Orissa Fisheries Development Corporation Ltd. (OFDC); (*e*) The Orissa Forest Corporation Ltd. (OFC) and the Orissa Construction Corporation Ltd. (OCC).
18. Report of the Evaluation Committee on Public Sector Undertakings in Orissa : Planning and Co-ordination Department Orissa, Govt. Press, Cuttack, 1968, p. 4. (Lokanathan Committee Report).
19. Ibid, p. 3.

Capital outlays in the projects have been excessively high. Depreciation charges also assume high magnitude. Inventories form a major part, and has varied from Rs.12 lakhs to Rs. 375 lakhs. It exerts adverse effects on the profitability position of the concerns. All efforts should be made " to keep the inventories at economic levels, as excessive holding as inventories would adversely affect the profitability position ".[20] Further these undertakings have not shown any appreciable result in turn-over aspect. The ratio of turn-over to capital employed (considering net fixed assets plus working capital) has been as under :

TABLE 1*

Year	Capital employed	Turnover
1961-62	1	0·22
1962-63	1	0·37
1963-64	1	0·47
1964-65	1	0·63
1965-66	1	0·71
1966-67	1	0·34

The ratios reveal the inefficient utilization of funds. In addition to this depressing feature of tunover, the increased cost of sales is also found.

Gross profit[21] in the public undertakings shows a depressing state of affairs. The IDC, the largest undertaking has sustained constant loss. There was no gross profit in 1961-62 and 1962-63 and the figures of gross profit for other years are also insignificant. The gross profit earned during the past six years in absolute terms and the precentage it forms to capital employed as also sales turnover are given in the following table (2).

TABLE 2

As on

	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67
		(Rupees in lakhs)				
Gross profit	2·28	0·62	9·26	30·40	1·12	1·45
Precentage of gross profit to capital employed.	loss	loss	2·07	5·97	0·13	0·17
Percentage of gross profit to sales.	loss	loss	4·38	9·45	0·18	0·49

Souıce: Lokanathan Committee Report p., 38.

20. Lokanathan Committee Report.
* Ibid, p. 31.
21. Gross Profit in this paper denotes the excess of income over expenditure after paying for interest, taxes and appropriation to reserves.

The table clearly pin-points the discouraging performance of the undertakings.

The position of the net profit of these public undertakings is still worse. Net profit represents gross profit minus provision for interest on loans and taxes as well as non-operating expenses but before appropriation to reserves (including the development rebate reserve). The net profit and its yield in terms of equity and net worth (paid up capital plus reserves less intangible assets like the deferred revenue expenditure) is given in the following table.

	As on					
	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67
Net profit	2·24	1·72	3·04	10·54	6·35	5·74
Percentage of net profit to equity.	loss	loss	0·61	1·24	loss	loss
Percentage of net profit to net worth	loss	loss	0·61	1·23	loss	loss

This indicates the position of net profit. The huge investment made in the public sector have not yielded any net profit so as to have self-financing position and thereby contributing to the general revenue for further captial formation.

The IDC, the largest undertaking has involved huge investment, long gestation period, high cost of production,continuous loss and utter dependence on the state as the sole soure of finance. Particularly, the year 1966-67 reveals the most disappointing state of affaris.[22] In case of OMC the highest sales turn-over reached was Rs.33·38 lakhs in 1963-64.[23] But from the year 1961-62 the corpoatiorn is incurring losses constantly except the year 1966-67. It is the OCC, which is showing some profits (of course very meagre) every year. In the year 1965-66, the Orissa Forest Corporation showed a sub-stantial loss of 10·61 lakhs.[24] The Orissa State Commercial Transport Corporation Ltd. during the first two years of its operations, has sustained a net loss of Rs. 0·82 lakhs and Rs. 1·19 lakhs respectively.[25]

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22. The I. D. C. : Annual Report, 1966-67.
23. The O. M. C. : The O. M. C. Annual Report : 1963-64.
24. The Orissa Forest Corporation : Annual Report '65-66.
25. The Orissa State commercial transport corporation Ltd., Annual Report 1964-65 and 1965-66.

Thus a brief review of the public undertakings in Orissa reveals that the commercial objective has been far from being realised. The investments have not yielded even sufficient returns for self-finacing purpose, not to speak of a net contribution to the Government Treasury for accelerating further capital formation in the State .They thus show utmost inefficiency.

In addition to the high cost of production, non-availability of requisite resources, absence of market prospects, the most important factor responsible for their inefficiency is ill-management. There is a necessity of a "drastic reorganisation of the undertakings [26] for better performance in future. The board of management is predominated by adminisrative officers (particularly I. A. S. officers) who do not have permanent stake in the board. They should make permanent career in public undertakings.[27] The Board should consist of more technocrats rather than administrative officers. Every public undertaking should have one economic adviser and statistical adviser for proper planning of investment. The tools and techniques of modern managment should be available to these undertakings by appointing trained personnel, instead of I.A.S. Officers. In most of the public undertakings the Manger or Managing Director is totally untrained in business management. The primary responsibility for measuring managerial performance is that of the manager himself. It is essentially a statistcial exercise. One needs to know the technique of exercising input-output ratio, for it is the essenial factor for efficient planning.[28] Management is purely a technical matter. The essential elements are three: performance budgeting, cost accounting and work study and these are within the province of expert management, engineers, cost accountants and economists,[29] not possible on the part of administrative officers who mostly comprise the Board. Efficiency of the board will promote efficiency of the enterprise.[30] But efficient management in Orissa's Public Undertaking is conspicuous by its absence. The privately owned enterprises mantain a team of experts and their board is dominated by these experts, not by administrative officers. Mere manifestation of Government control in recruiting and appointing administrative officers to the board does not ensure elements of efficiency. This of course does not lead to the immediate conclusion that public undertakings can not run efficiently and therefore their growth is to be stunted and if necessary we may start denationalization.[31] Further in Orissa, the public sector

26. Lokanathan Committee Report, p. 85.
27. The Recent Administrative Reforms Commission points out this specific measure.
28. A. H. Hanson : op, cit p., 44
29. A. H. Hanson : op., cit., p. 99.
30. H. A. Clegg. Industrial Democracy and Nationalisation (1951) : W. A. Robson· Nationalised Industry & Public ownership p., 112. T. R. Sharma, Working of state enterprises in India "., p', 184. A. D. Gorwalla Report on the efficient conduct of state enterprises, p. 25, and The recent administrative reform commission's report.
31. B. R. Shenoy's Report on Orissa's Economy.

undertakings being financially sick always seek the help of the state. It has led to utter financial dependence. The bureaucratic machinery with its low wheel has aggravated the problem. Proper and timely funds have not come from the government side to have economic, productive and efficient activities. The element of Government control has assumed much larger degree. The concern has to be much independent financially and in matters of management This of course does not mean that we should transfer the responsibility of the management of certain units.[32]

But without the transfer of ownership, the undertakings can run efficiently if there is a drastic change in the management side. The board should consist of persons efficiently trained in business management, economists, statisticians and cost accountants. If necessary, the staff of privately owned companies may be made ex-office members of the board to ventilate their views on sound and efficient management. There is a need for up-to-date and regular accounting system being introduced in all undertakings. The government control should be minimised as far as possible. Further proper elements of incentives should be provided to the employees and the board. Attractive salary and other emoluments should be fixed for technicians, for they being trained personnel, will like to go to the private undertakings for better pecuniary prospects.[33] In every foreign country, the companies maintain economist-statisticians. Therefore, the public undertakings should appoint at least two advisers, viz,. economic adviser and statistician (they should of course be trained personnel for specific purpose.) A permanent and regular cost accountant should be maintained. In a mixed economy like India these undertakings have to compete with the private sector in matters of efficiency and profit creation. Thus, while we cannot in the nature of things go to the stage of perfect competition in the sense of multiplicity of units, we can still have some measure of " controlled rivalry and competition between two or there big sized units' .[34] They shall not show more profit by increasing the price or degrading quality of the product. The public undertakings have to show efficiency by reducing cost of production and improvimg the quality of the product—the chief determinants of efficiency. It is a competition of efficient management and thus in matters of efficiency. The realisation of commercial objective depends much upon 'efficient management' wich is lacking in Orissa, and therefore the inefficiency of public undertakings arising out of inefficient management must be cured by proper reorganisation and reorientation of the boards of management.

32. Lokanathan committee feels that these undertakings should be managed like a " company type". The ownership should be transferred to certain companies.
33. V. V. Ramanandham, P. Prasad & P. K. Prasad, Laxmi Narayan, Howard K. Hyde, Mrs. Janet G. Chapman and others in 'The Working of the Public Sector' Edited by V. V. Rammodhan p. p. 135-207.
34. C. Subramniam : 'Public Enterprise', in the working of the Public Sector, edited by V. V. Ramnadham, p. 9.

ANNEXURE 1*

TABLE I

Consolidated Balance Sheet As on......

(*Rs in lakhs*)

	31-3-62	31-3-63	31-3-64	31-3-65	31-3-66	31-3-66
A. Liabilities :						
1. (*a*) Paid up Capital ..	75·00	220·01	486·00	774·00	985·091	239·46
(*b*) Advances against future issues of shares ..	..	77·50	4·27	74·69	193·12	39·25
2. Reserves & Surplus ..	—1·85	—2·91	7·17	19·13	13·34	11·20
3. (*a*) Loans from Government of Orissa ..	..	..	62·50	130·29	582·79	712·50
(*b*) Other Loans ..	..	139·99	225·62	465·44	710·29	990·33
4. Current Liabilities & Provisions:						
(*i*) Sundry Creditors ..	0·11	34·78	145·19	326·02	292·27	267·32
(*ii*) Provisions for taxation ..	..	0·74	1·89	13·87	3·92	0·93
(*iii*) Other Liabilities & Provisions ..	3·35	64·33	63·82	88·60	111·48	44·12
Total ..	76·61	534·44	1006·46	1892·04	2892·30	3305·11
B. Assets :						
5. Gross Fix Assets ..	7·24	55·80	206·14	319·72	532·92	548·43
6. Depreciation ..	1·81	5·62	28·97	56·53	86·88	102·60
7. Net Fixed Assets ..	5·43	50·18	177·17	263·19	446·04	445·83
8. (*a*) Capital work in progress ..	..	56·48	219·82	813·62	1295·41	1826·84
(*b*) Development and prospecting expenses ..	..	9·91	31·38	60·23	99·80	173·84
9. Investments ..	0·63	3·63	13·25	18·74	55·68	118·28
10. Fixed Deposits ..	..	218·56	74·30	49·64	139·04	1·00
11. Deffered & Revenue Expenditure	0·74	6·52	9·95	11·79	13·01	10·26
12. Current Assets :						
(*i*) Inventories ..	12·42	74·64	196·86	374·86	336·76	278·05
(*ii*) Book Debts ..	1·59	19·33	67·71	96·55	142·75	72·38
(*iii*) Cash & Bank Balance ..	53·01	55·08	146·58	73·73	136·30	66·32
(*iv*) Loans & Advances ..	2·79	12·40	59·42	117·13	206·88	294·53
(*v*) Other Assets ..	..	27·71	10·02	12·56	20·63	17·78
Total ..	76·61	534·44	1006·46	1892·04	2892·30	3305·11
C. Working Capital (12—4) ..	66·35	89·31	269·69	246·34	435·65	416·69
D. Capital Employed (7+C) ..	71·78	139·49	446·86	509·53	881·69	862·52
E. Net Worth (1+2—11) ..	72·41	288·08	497·49	856·03	1178·54	1279·65

* c * Source : Lokanathan Committee Report.

ANNEXURE 1*

TABLE II

Consolidated Working Results

As on........ (*Rs in lakhs*)

	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67
1. Sales/Operating Incomes ..	15·46	52·11	211·36	321·71	626·28	297·38
2. Cost of Sales :						
(*i*) Raw Materials consumed & other manuf, expenses ..	1·25	21·59	132·55	256·67	321·33	205·87
(*ii*) Salaries, wages & other benefits to employees ..	4·91	15·87	33·31	54·94	71·14	73·52
(*iii*) Opening stock of finished goods and work in progress	11·34	17·78	47·75	136·53	294·28	64·24
(*iv*) Less-Closing stock of finished goods and work in progress ..	—10·79	—47·75	—136·53	—294·28	—229·26	—104·02
(*v*) Other Expenses ..	10·40	41·49	101·88	108·60	137·01	29·21
	17·74	52·73	202·10	291·31	625·16	295·93
3. Gross Profit (1—2) ..	—2·28	—0·62	9·26	30·40	1·12	1·45
4. Add :						
(*i*) Non-operating Income ..	..		..	..	..	..
(*ii*) Income on Investments ..	0·04	4·00	3·72	1·82	2·22	1·67
(*iii*) Prior Period Receipts ..	..	..	0·60	0·29	2·45	0·29
5. Less :						
(*i*) Interest Paid ..	..	3·97	4·20	5·93	5·83	6·10
(*ii*) Deferred Rev. Expenditure	..	0·27	..	1·78	0·29	0·52
(*ii'*) Prior Period Expenses ...	..	..	0·10	1·20	2·82	0·12
(*iv*) Payment to Kalinga Institute (Contractual obligation) ..	..	..	1·42	1·94	1·63	1·93
6. Less Tax provisions ..	..	0·86	4·82	11·12	1·57	0·48
7. Net Profit after Tax ..	—2·24	—1·72	3·04	10·54	—6·35	—5·74
8. Divident Declared ..	..	..	1·05	1·00	0·56	..
9. Retained Profits ..	—2·24	—1·72	1·99	9·14	—6·91	—5·74

Note :—Annexure 1 (Tables I & II) is in respect of the following :—

(*a*) 1961-62=OMC

(*b*) 1962-63, 1963-64=IDC, OMC, OCC, Fisheries & Forest Corporation.

(*c*) 1964-65 & 1965-66=Commercial Transport Corporation

(*d*) 1966-67=IDC, OMC, & OCC.

* Source : Lokanathan Committee Report

AFRICAN AGRICULTURE: A LAGGING SECTOR IN THE ECONOMIC DEVELOPMENT OF SOUTHERN RHODESIA*

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I. Introduction :

A widely held view in the body of economic literature today is that agriculture should be the " preferred route" of development for many of the underdeveloped countries with a predominantly agricultural sector in their national economies. Accepting this view, an attempt is made in this paper to examine the development of the agricultural industry in Southern Rhodesia in relation to her general economic development.[1] Like most developing countries, Southern Rhodesia has a dualistic economic structure. This economic dualism is found in two broad sectors: viz, agriculture and non-agriculture. The former being partly over-populated[2] is conspicuous by a low level of productivity with primitive technology and subsistence production. The latter comprising the whole range of manufacturing, mining, processing, and service industries are organised on a highly sophisticated capitalist line with advanced technology, higher level of productivity and high wages. Another important feature of this economic dualism in Southern Rhodesia is the existence of a fairly large capitalist subsector within the broad framework of agriculture, based on private enterprise and individual peasant proprietorship, where the use of farm technique is highly sophisticated and farming is commercial and mostly meant for export. This subsector, for

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* This study was possible during my stay at the University College of Rhodesia and at the London School of Economics between 1963-65 as a Commonwealth Research Scholar. " Rhodesia " may be read in the place of " Southern Rhodesia " as it is the present name of the country. Sweeping political and economic changes have taken place in Rhodesia since November, 1965 after the illegal declaration of independence by Ian Smith government. This does not, however, in any way affect the broad lines of analysis in this paper, although the data presented here cover upto 1962-63.

1. Agriculture is the single largest sector of the national economy of Southern Rhodesia, which accounts for about 22 per cent of the total gross domestic product in 1963. Industrial Origin of the G. D. P., " National Accounts of Southern Rhodesia, 1954/63",. July 1964, Table. 144, pp. 130.

2. I have used the term " partly over-populated " to denote the problem of over-population and over-stocking only in the Tribal Areas. This, however, excludes European agriculture and farming by the advanced African farmers in the Native Purchase Areas.

example, comprises the European farming[3] and the Lowveld agriculture.[4] The existence of this subsector has played a considerably important role in the agricultural development of Southern Rhodesia in the past and produces almost two-thirds of the total agricultural output and offers employment to about 23 per cent of the total African working population.[5] It is in this context, an attempt is made here to discuss the development of the agricultural industry of Southern Rhodesia in relation to the prevailing land tenure practice, agricultural marketing, and agricultural credit facilities. As all these factors have been favourable to the European farmers in the past and European farming in Southern Rhodesia is already in a highly developed state, a greater attention is paid in the paper to the role of African agriculture which is a lagging as well as a problematic sector. This sector is still largely tribal and tradition-bound and predominantly subsistence in character. The development of agriculture and consquently the general economic development of Southern Rhodesia depends, to a large extent, upon the transformation of the African subsistence agriculture (which comprises about 60 per cant of the total African population) to cash farming and thereby increasing their purchasing capacity. This is particularly true after the dissolution of the Federation of Rhodesia and Nyasaland on 31st December, 1963, when there arose an urgent need for Southern Rhodesia to expand the domestic market for her local manufacturing industries, which were established during the time of the Federation. The break-up of the Common economic area with Northern

3. European farming is fairly predominant in Southern Rhodesia as the value of the agricultural output produced by the European farmers is almost double that of the Africans'. With the exception of a very few, Africans in general belong to the subsistence sector, while their European counter-parts produce tabacco, maize, beef and other agricultural products on a commercial basis.

4. The "Lowveld" in Southern Rhodesia consists of three big estates, viz., Triangle, Chirundu, and Hippo Valley, with an area of about 253, 600 acres under cultivation at present. Large-scale agricultural investments to the tune of about £33 million have been undertaken in the Lowveld by private companies and individuals including the Government investment of £ 9·4 million on irrigation projects and the construction of a railway line to the area. Mr. H. J. Quinton, chairman of the Sabi-Limpopo Authority at the Manicaland Development and Publicity Association's 18th annual congress in Umtali on 31st July, 1964 said "Lowveld in Southern Rhodesia now is only a small part of a scheme that should eventually cover about 700,000 acres and cost £ 200 million. "The agricultural expansion of the Lowveld in the past has been spectacular and has made the country not merely self-sufficient in sugar and citrus fruits, but also provides a promising future for the country's export market. It has also brought development in manufacturing and processing industries in the area viz., sugar mills, distilleries, fruit processing and canning industries and etc. "The Report of the Commission of Enquiry into the Sugar Industry, Federation of Rhodesia and Nayasaland, 1962". pp.6

5. Final Report of/the April/May 1962 Census of Africans in Southern Rhodesia, Sec. 39, pp. 9-10.

Rhodesia (the present name is Zambia) and Malawi following the dissolution of the Federation has already put a strain on the manufacturing industries of Southern Rhodesia, and in some cases excess capacity has already emerged.

II. Agrarian Reforms and Economic Development :

Agrarian reforms are an indispensible condition for economic development of the underdeveloped countries.[6] By raising the productivity of agriculture, a scheme of agrarian reform tends to increase the purchasing power of the farming sector, enlarge the size of domestic market for the growth of subsidiary or secondary industries, and thereby accelerates an economy for "take-off" to use Prof. Rostow's phrase. Many underdeveloped countries like India, Pakistan, Tiwan, Egypt, Iraq and Cuba, to take but a few examples, are now struggling hard to meet the challenge of economic development through agricultural reforms. No genuine economic revolution can be achieved in these countries (where there exists a strong correlation between the rate of increase in the agricultural output and the rate of growth of the gross domestic product) without a proper scheme of land reform. Agrarian reforms in these countries, broadly speaking, consist of reform in traditional land tenure practice, controlling acreage of individual holdings, substitution of individual peasant proprietorship in the place of feudalistic tenure, extension of credit facilities to the farmers, improved marketing facilities, and above all, measures designed to reduce underemployment in agriculture.

Economists like Ragner Nurkse and Arthur Lewis have recognised that the agricultural sector in many of these underdeveloped countries in a potential source of capital, wealth, and economic growth.[7] The most crucial factor in the Nurkse-Lewis model is the existence of vast underemployed manpower in the agricultural sector of these countries (which is not, of course, amendable to any quantitative measurement like industrial employment) with a low or even zero marginal productivity of labour, which is a potential source of capital formation. An effective diversion of the redundant labour force from the agricultural to the non-agricultural sector, i. e,. from low or zero marginal productivity sector to a higher productivity sector coupled with a successful mobilisation of the marketable surplus of agricultural produce will lead to general economic progress. The success of such a scheme, however, depends primarily upon the concealed domestic saving which is to come from the agricultural sector to finance general economic development in the initial

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6. U. N. Land Reform : Defects in Agrarian Structure as Obstacles to Economic Development, New York, 1951.

7. Ragner Nurkse : Problems of Capital Formation in Underdeveloped Countries-Basil Blackwell, 1953, ch. II ; and
Arthur Lewis : 'Economic Development with Unlimited Supplies of Labour' Manchester School of Economic and Social Studies,

stage. Here comes the question of agrarian structure the institutional framework of agriculture or in other words the question of land-tenure agricultural marketing and credit organisations. Much , therefore, depends upon the type of land-tenure prevalent in a country and various marketing and credit facilities extended to the farmers. The worthwhileness of any scheme of agrarian reform depends upon the criterion of additional incentive or increased efficiency in agricultural production, increase in the marketable surplus of agricultural produce for stimulating general economic development.

Japan and U. S. S. R. are the two countries which offer the best example of how a feudalistic, poverty-stricken society with a considerable agricultural over-population and predominantly subsistence farming could transform itself to a modern sophisticated industrial and commercial society through appropriate policies for agriculture. General improvements in agriculture, a fast rise in agricultural productivity, and an increase in the taxable surplus from agriculture set the stage ready for the " take off" of the Japanese economy in the last quarter of the 19th century. For example, food production in Japan increased by about 35 to 40 per cent within a period of twenty years between 1894 to 1914,[8] through more intensive methods of cultivation, improved techniques and better credit faciliities. In the initial stage of the economic development of Japan, a high level of domestic saving and capital came from the peasant propietors[9]. It is of some interest to note in this connection the amount the land tax alone contributed to the general revenues of the government in the initial period of Japan's economic development. It is estimated that in the year 1875-76, the yield from the land tax was 50 million yen compared to the total tax revenue of 57·8 millon yen of the Central government.[10]

III. Land Tenure System in Southern Rhodesia :

Extensive reforms in the land tenure system have taken place in the past few decades in countries with a sizeable agricultural over-population in order to accelerate agricultural development by breaking down the old and economically defunct feudalistic structure. In its place has emerged individual proprietorship[11] and this is supposed to do away with the evils of the

8. W. W. Lockwood : " The Economic Development of Japan (1868-1938)", Princeton. University, 1954, pp. 270.
9. G. C. Allen : A Short Economic History of Modern Japan, Unwin University Books, London, 1962, pp. 47 and W. W. Lockwood : op. cit., pp. 270.
10. A. Andreads : Les Finances de 1' Empire Japonais et leur Evolution, pp.50. Also Quoted by Prof. Allen, op. cit. pp. 47.
11. Prof. Georgescu-Roegen argues that individual peasant farming under condition of underemployment in agriculture is the best economic policy. For this could absorb, the excess population on land without reference to their marginal productivity. N. Georgesu—Roegen : 'Economic Theory and Agrarian Economics', Oxford Economic Paper ;Vol.XII, 1960.

feudalistic order: viz,. " rack-renting," "absentee-landlordism," and insecurity of tenure.

A brief survey of the land tenure system in Southerm Rhodesia reveals that there has been a movement towards individual peasant holdings in the Tribal Areas, although it was introduced for the Europeans from the early days of settlement. Prior to the European settement in Southern Rhodesia in 1890, private ownership of land was unknown among the indigenous Africans comprising the Mashona and the Matabele tribes. In a tribal framework land was communally owend,[12] though individual use of the communal land for the purpose of farming was in practice. All land was vested in the Paramount Chief, who was responsible for making allotments of land among the tribesmen through the ward-head (or "sadunhu") and the latter through the village headman (or kraal head). Under the customary land tenure system, the tribal ward held the communal right over the land within its boundary. Individual members by virtue of their membership of the community could get individual portions of land for the purpose of farming. Pastoral land was also communal. Methods of cultivation were extremely primitive and the system was known as "shifting cultivation". They used to clear patches of land by burning the bush and cultivate it for a period of three to four years, and then the land was allowed to remain fallow until it restored fertility.[13]

A departure from the system of tribal land tenure was made with the coming of the Europeans and private ownership of land was introduced. The sovereignty of the Paramount Chief ceased all lands became the property of the crown. Various orders-in-council[14] were passed for the allocation of lands between the Europeans and the Africans and lands reserved for the exclusive use of the Africans came to be known as the "Native Reserves". Within the Reserves, tribal tenure was retained with the power of allocation vested in the "sadunhu". Outside the Reserves, the right of Africans to acquire, own, and dispose off lands was maintained on an individual tenure basis; although it meant very little for them as they did not have the means

12. The Mangwende Commission of Enquiry of 1961 defines communal tenure thus : "Communal tenure in Shona customary law does not mean that all land is used, in common by the community ; or that the rights of individuals are rendered insecure at the whim of the tribal authorities........What communal tenure in indigenous Shona society does mean, is that because the land and its resources belong to the community, every full member of this community has an inalienable right to a reasonable share according to his requirements. For this reason this right is as secure as is a person's membership of the community". pp. 35.
13. W. Allen : 'Agricultural Cycle—African land Usage, Human Problems in British Central Africa', Rhodes—Livingstone Institute Journal, 1945 and The report of the Mangwende Commission of Enquiry, 1961, pp. 12.
14. Orders-in-Council of 18th. July 1894, 20th Oct. 1898, and 9th, Nov., 1920.

to compete with the Europeans to buy land on a freehold basis. It was after the institution of responsible Government in Southern Rhodesia in 1923, the question of a clear-cut demarcation of land between the people of two races arose and accordingly a Land Commission was appointed in 1925 under the chairmanship of Sir Morris Carter to enquire into the land problem. Following the recommendations of the Carter Commission, the Land Apportionment Act was passed in 1930, which governed the demarcation of land between the two races until the present time. Subsequent minor amendments to this Act were made in 1941, 1950, and in 1962.

TABLE 1

Areas of Different Land Categories in Southern Rhodesia 1941—1962

(*in acres*)

Land Category	1941	1953	1959	1962
Native Reserves	21,142,005	20,944,300	21,020,131	..
Special Native Areas	Nil	4,800,481	12,878,514	..
Total Tribal Trust Land	21,142,005	25,744,781	33,898,645	40,020,000
Native Purchase Areas	7,859,942	5,654,325	8,052,261	4,220,000
Total Land for Africans	29,001,947	31,399,106	41,950,906	44,240,000
European Areas	48,523,765	42,883,054	48,056,261	35,750,400
Undetermined Area	62,563	62,563	57,395	..
Unassigned Area	18,609,500	17,992,000	Nil	..
Unreserved Land	..	..	..	5,769,600
Forest Area and National Parks.	987,745	4,848,797	7,120,958	10,840,000
Total ..	97,185,520	97,185,520	97,185,520	96,600,000

Note :—The above figures are approximate as survey work s still going on in Southern Rhodesia and, therefore, subject to alteration from time to time.

Source :—Figures for 1941, 1953, and 1959 are quoted from " Survey of Economic Developments since 1953 "—Monkton Commission Report, Oct. 1960, London, Ch. 13, pp. 234 and that of 1962 are derived from the " Report of the Secretary Internal Affairs and Chief Native Commissioner" Southern Rhodesia, 1962, pp. 10.

Table I shows the division of the total land area of Southern Rhodesia (approximately 97 million acres) into different land categories and between the people of different races. An analysis of the land tenure practice in respect of different categories of land shows that there is no uniformity of tenure. The indigenous Africans occupied the Reserves on communal basis, though they were allowed to acquire or lease land on an individual tenure in the "Native Areas" which subsequently came to be known as the "Native Purchase Areas" after the amendment of the land Apportionment Act in 1950. Another class of Native Area known as the "Special Native Area" was established under the Land Apportionment (Amendment) Act of 1941, where the traditional tenure had been retained. Thus the Native Area is subdivided into Native (purchase) Areas with individual freehold tenure, and Special Native Areas with communal tenure. In the European area,[15] the tenure has been all along freehold. According to the Land Apportionment Act Africans are debarred from acquiring, leasing or occupying land in the European Area, although a few exceptions were made to this rule in the past. The "Unassigned Area" as shown in Table I was in course of time alienated to both the African as well as European Areas.

Thus the form of lamd tenure in Southern Rhodesia has been communal freehold, and leasehold. Communal tenure operated in the Reserves and Special Native Areas; both taken together came to be known as the "Tribal Trust Land" according to the 1961 constitution of Southern Rhodesia. As per the terms of the constitution such lands have been vested in a Board of Trustees. Freehold and leasehold tenure prevail in regard to lands of other categories in Table 1, with the exception of " National parks'.

The system of tribal land tenure, communal pastoralization and traditional shifting method of cultivation continued smoothly as long as sufficient land was available to the growing African population and their increasing cattleherds. A relatively high rate of natural increase in the African population[16] along with a rapid increase in their cattle population within the limitation of the Land Apportionment Act, in course of time gave rise to the twin problems of overpopulation in the African agriculture and overstocking in the communal grazing land. The cause of overstocking is to be found in the sentimental

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15. The term " European Area " is somewhat misleading. Actually the segregation of land was made between the Africans and the non-Africans. The latter includes the Europeans, Asians, and people of other mixed races. As the number of Asisans and people of mixed races is very few, the land area is said to be predominantly European.

16. The Census of the Africans in 1962 reveals that the rate of natural increase in the African population in Southern Rhodesia increased from 3 to 3.5 per cent per annum since 1954. This means the African population will double in 20 years.
Final Report of the April/May 1962 Census of Africans in Southern Rhodesia, Ch. I. pp. 6-7.

attitude of Africans towards cattle. Traditionally, Africans regard cattle as their bank balance, a source of saving and a "sign of wealth" .[17]

TABLE 2

A Comparative estimate of the growth of African population, African-owned cattle, Acreage under cultivation by the Africans in Southern Rhodesia:1902-1963.

Year	Estimated African population	Estimated number of African owned Cattle.	Estimated acrevage under cultiation.
1902	514,813	55,232	534,505
1912	705,722	344,698	853,012
1922	790,234	864,894	1,119,955
1932	1,010,825	1,755,610	1,483,338
1942	1,298,287	1,800,494	1,821,775
1946	1,546,840	1,884,334	2,206,159
1962	3,640,000	2,090,725	n.a.

Note :—The figures are approximate

Source :—Figures from 1902 to 1946 are quoted from " Southern Rhodesia Organization for Economic Developments, Nov. 1947 ", see the section entitled " Economic Development : Division of Native Affairs ", pp. 2. The African population figure for 1962 is quoted from " the Final Report of the April/May 1962 census of Africans is Southern Rhodesia ", Ch. 1, Sec. 32, pp. 7. The figure for African-owned cattle is drawn from the 'Report of the Secretary for Internal Affairs and Chief Native Commissioner for the year 1962 ", Table-10, pp. 61.

Table 2 shows that the rate of increase in African population and that of the African-owned cattle between 1902 and 1962 exceeds the rate at which the acreage under cultivation increased. The continued pressure of population and cattle on limited land area demarcated for the Africans, in course

17. The Carter Commission of 1925 writes : "..............but progress will be retarded by the hitherto ineradicable possessions of the Natives to regard cattle as the sole source and sign of wealth and by the custom of lobolo, under which parents require cattle to be handed over to them before they part with their daughters in marriage." pp.22

of time, caused soil erosion, deterioration of soil fertility and fragmentation of holdings. This drew the attention of the goverment and after the failure of some of the government measures to conserve the land resources in the African areas like the implementation of the "Natural Resources Act" in 1941 and the policy of "Centralization"[18] during the forties, the government ultimately passed the Native Land Husbandry Act in 1951. This historic Act was passed to ensure food husbandry conditions in the Tribal Trust Land. The passing of this Act sets a milestone in the land history of Southern Rhodesia in so far as the Act apparently aims at cutting right across the customary tribal tenure in respect of Tribal Land. Broadly speaking the Act has a dual aim: firstly, to stimulate the productivity of African agriculture through efficient land use by granting "farming right" to the individual Africans; and secondly, to prevent soil erosion and the impoverishment of grazing land by granting individual grazing rights for a "standard number" of cattle on the communal grazing land.

The most important feature of the Land Husbandry Act is the provision for granting individual right upon arable land. It entitles all indigenous Africans, who were cultivating lands in the Reserves or in the Special Native Areas at the time of implementation of the Act, to apply for registration to the Native Commissioner to hold a "farming right"[19] on a prescribed standard size arable land as well as individual grazing right on communal pastures. Section III the of Land Husbandry Act provides for individual farming right pon arable in the Tribal Trust Areas, but does not provide for freehold tenure for "a farming right cannot be pledged, attached or sold in execution". Although the Act aims at substituting a system of individual peasant farming in the place of customary land tenure practice,[20] it is far from being able to provide a security of tenure as sub-section 1 of section 35 of the Act empowers the Native Commissioner to cancel a farming right of an African in the event of failure to comply with good husbandry conditions. Instead, it can be argued that land tenure under the customary law was more secure than under the Land Husbandry Act.

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18. The "Centralization" scheme aims at preventing "haphazard interspersing of arable and grazing land, by confining all cultivation activities to large blocks of all selected arable land surrounded by grazing land, with the homesteads placed on the dividing line between the two." Mangwende Commission Report, pp. 17.

19. A "farming right" as has been laid down in the Act means only the right to cultivate an area of arable land and, as such, it should not be construed to mean the right to ownership.

20. The objectives of the Land Husbandry Act have been clearly defined in the government report entitled 'What the Native Land Husbandry Act Means to the Rural Africans and to Southern Rhodesia', 1955.

The 'standard' size of arable land for farming will vary from place to place according to natural conditions depending upon soil-fertility, rainfall, climate, and should be adequate enough to provide for an efficient unit of cultivation.[21] In other words, this is just the conception of an economic holding which, besides, being governed by the aforesaid factors, will depend upon the total amount of land available in a particular area. So far as the grazing right is concerned, an individual farmer can get a grazing right under the limitation of safe carrying capacity of the communal grazing land. Steps have also been taken in the Act, on the one hand, to prevent excessive concentration of land as one is not allowed to hold lands more than three times the "standard" area at any one time, and on the other, to prevent fragmentation of holdings the Act envisages that a farmer cannot transfer his farming right to another if the remaining portion of the land is less than one economic unit. This right will expire on the death of a holder, though he may choose a successor during his lifetime, whose name may be recorded with the Native Commissioner for consideration in granting such right in future.[22]

It is necessary to examine the effects of these two Acts, viz,. the Land Apportionment Act and the Land Husbandry Act, important as they are in the land tenure history of Southern Rhodesia, on the efficiency and development of the agricultural industry of the country. The Land Apportionment Act with its numerous amendments may be said to have mixed effects on the agricultural progress of Southern Rhodesia. On the one hand, it can be said that the Act has been a spur to agricultural development of the country in the past and at the same time it has given rise to such economic, social and political problems, which the government of the day finds it difficult to solve.

That the said Act has stimulated the development of agriculture and thereby the general economic development of the ecountry can be argued from the point of view of increasing European immigration into the country in the early days of colonisation for settlement on the reserved land. European farmers came with necessary amount of agricultural skill, up-to-date knowledge of farming, and advanced technology. Caputal for farm development was provided either by the government or by the Land and Agricultural Bank, which was established in 1924. They could thus develop the agricultural industry mainly through the export of tobacco, maize, and beef and to make the export prices competitive, they got cheap labour from the African

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21. Sub-section 2 of section 4 of Part III of the Land Husbandry Act defines the standard area for farming as : "The area so fixed shall in the case of dry farming be not less than six acres and in the case of farming on irrigable land or in the case partly of dry farming and partly of farming on irrigable land, may be such smaller area as the minister may in his discretion fix."
22. Sections 39—41 of the N. L. H. A., 1951, pp. 21.

subsistence sector at a subsistence wage rate. This enlarged their profit and led to an expansion on all fronts:agriculture, inddustry, and mining in Southern Rhodesia.

It may be mentioned here that the Act has not been an unmixed blessing as we have to take into account its depressive effects upon the sector of African agriculture. This, in course of time, created the problem of over-population in the sector of African agriculture for three reasons. In the first place, out of a total land area of about 97 million acres in Southern Rhodesia, only 48 million acres or approximately 50 per cent were reserved for the Europeans and about 29 million acres or 30 per cent were made available for the Africans. This division of land between the people of two races, considering the size of their population as it is today, i.e., 20 Africans to 1 European, in the absence of a fast rise in non-agricultural employment to cope with the increase in the African population, is bound to give rise to over-population, underemployment, fragmenation of holdings and subsistence farming in the African sector ; all those evils which the government hopes to mend through the implementation of the Land Husbandry Act today. Secondly, segregation of land on a racial basis is nothing but to accept and perpetuate the *status quo* in agriculture but not to have any dynamic change. In fact, very meagre attempts were made by the government in the past to improve the conditions of African agriculture. Until 1926, nothing was done for that sector and since then the department of Native Agriculture was set up with land officers and demonstrators to instruct the African farmers in good husbandry conditions. But its progress has been slow due to the lack of personnel and funds. The situation was somewhat improved in the fifties after the institution of the Native Development Fund in 1949. Finally, over-population in African agriculture is the inevitable consequence of the growth of the non-agricultural sector and that of European agriculture on a capitalist line, for these sectors employ labour on a wage basis with reference to a labourer's marginal productivity. Those who fail to fulfil this criterion are obviously thrown back to the subsector of African agriculture, which by nature of its subsistence character could accommodate the extra population without reference to their marginal productivity.

The foregoing analysis clearly reveals that the Act has done more harm than good to the economy of Southern Rhodesia and that it is time for its repeal. The repeal of this Act, given the necessary assistance to African agriculture, may achieve the desired end of accelerating productivity in that sector.

So far as the Land Husbandry Act is concerned, its implementation has not been satisfactory in the past decade. It was expected that by the end of 1963 some 33 million acres of Tribal Trust Land should be covered by the

Act and some 350,000 farmers are to be registered. As against this some 290,719 persons have been registered in respect of 18.7 million acres of tribal land.[23] Several reasons are there for the slow implementation of this Act[24], which ultimately led to the partial suspension in the implementation of the Act in 1962, as is evidenced from the chief Native Commissioner's Report for that year. One of the most important reasons has been the lack of participation on the part of the tribal chiefs and African peasants in general in so far as the Act is a threat to the long-established customs and the age-old authority enjoyed by the chiefs in the allocation of land among the tribesmen. The Act is an usurpation of the African concept of land rights and the security of tenure.[25] Recently, of course, the government has passed legislations to consolidate the customary position of the chiefs in relation to tribesmen and tribal land. Lack of funds on the part of the government is another major bottleneck in the implementation of the Act. The Mangwende Commission reporting in 1961 observes that the Land Husbandry Act has become one of the most contentious measures passed by the Southern Rhodesia Parliament and a target for bitter attack from the African side ".[26]

It may be argued that individual tenure helps in augmenting the efficiency of peasant farmers by inculcating a sense of security and stimulating their pride of possessions, and offers an opportunity for more able and efficient farmers to expand by enabling them to reap the fruits of their own labour. In Southern Rhodesia, this has happened in case of the European farmers in course of the last 70 years. But the same cannot be expected to be repeated in the sector of African agriculture, unless other ancillary factors are provided to African peasant farmers. In the absence of agricultural infra-structure services, it is futile to attempt any land reform scheme. The Land Husbandry Act cannot be said to have embodied the virtues of individual peasant proprietorship.

An effective implementation of this Act would surely have resulted in some undesirable effects in the long run like the creation of a class of landless proletariat, illegal fragmentation of land holdings, and absentee landlordism : all those evils which the Native Land Husbandry Act itself aims at preventing. It is true that, with the existing density of population in the tribal land, all lawful claimants cannot get the right for full " standard holdings", and if the Act is strictly enforced there is bound to emerge a landless class. Again, with the

23. Report of the Secretary of the Internal Affairs and Chief Native Commissioner, 1962 pp. 11.
24. Phillips Committee Report on " The Development of Economic Resources of Southern Rhodesia ", 1962, pp. 148-49 and Annual Report of the Chief Native Commissioner of S. R. from 1958 to 1962 for a detailed criticism of the Native Land Husbandry Act.
25. Dr . G. K. Garbett : 'The Land Husbandry Act of Southern Rhodesia' in the book African Agrarian System, ed. Daniel Biebuyck, O. U. P., 1963, pp. 194-96.
26. pp. 34

existing rate of natural growth of African population at 3·5 per cent per annum and under the limitation of the Land Apportionment Act, the class of landless is bound to increase in course of time. This evil could, however, be remedied by expanding employment opportunities in the non-agricultural sector, failing which the Land Husbandry Act may augment but not solve the problem of underemployment in African agriculture. There has already been a growing tendency towards this as has been evidenced from the Report of the Chief Native Commissioner for the year 1962.[27]

Though the Act aims at preventing fragmentation of holdings, it is likely that illegal fragmentation may occur in course of time under the prevailing tribal customs and kinship relationships among the Africans.[28] The Act is also likely to give rise to certain obnoxious feudalistic practices of absentee land-holding and rack-renting, as the Africans working on the European farms and in the industrial sector and holding a farming right in the tribal area could lease their land, for the Act does not prevent the leasing of land. All these are likely to have a serious deterrent effect on the efficiency of African agriculture.

The foregoing analysis reveals that the Land Apportionment Act coupled with the Land Husbandry Act have had depressive effects on African agriculture and in all fairness these two Acts should be either repealed or drastically amended. The Phillips Committee appointed to study the problems of agricultural industry of Southern Rhodesia in 1960, however, is in favour of a serious amendment of the Native Land Husbandry Act and recommends a land tenure system with greater cooperation from Tribal Chiefs and local councils.[29]

IV. Pricing and Marketing of Agricultural Products :

Marketing of agricultural products and agricultural price policy are two closely interrelated factors for determining the efficiency of agricultural production. The Phillips Committee has rightly observed : "...........a particular responsibility is placed on marketing and pricing "[30] in the agricultural development of Southern Rhodesia.

The organisations for marketing the surplus agricultural produce in Southern Rhodesia are highly developed and efficient, which operate through certain Statutory Boards on a commodity basis. The policy for marketing the agricultural produce has been to foster the development of co-operation

27. " Land in the Tribal Areas is still virtually the only form of social security which the African has. Faced with unemployment, he returns to his Tribal Arreas to make such subsistence as he can until better time prevails ". pp. 11.
28. This point has been emphasized by D . G. K. Garbett : op. cit., pp. 196-98.
29. op. cit., pp. 151-52.
30. op. cit., pp. 264.

among farmers and to stabilize the agricultural prices in the interests of both consumers and producers.[31] The agencies responsible for agricultural marketing may be broadly classified into three categories : the Statutory Marketing Boards, Agricultural Co-operative Societies and the Agricultural Prices Advisory Board.

The marketing of individual products is done through various statutory bodies : the Grain Marketing Board, Dairy Industry Control Board, Cold Storage Commission, Pig Industry Board, Tobacco Marketing Board, Sugar Industry Board, and the Cotton Research and Industry Board. The chief function of these Boards is to provide a system of efficient, co-ordinated marketing of various agricultural products with the exception of virginia flu-cured tobacco and to offer a price and market guarantee.

Of all these Boards, it is of some interest to discuss the scope and function of the Grain Marketing Board[32] at some length as it is the most important one. This Board was set up in November, 1950 to control the marketing of all food-grains on a national basis and to attain a long-run stabilisation of agricultural prices, keeping in view the changes in cost of production. The Board has power to fix its selling price, though the buying price is fixed by the government. An " Equalisation Fund " has been established by the Board to avoid day-to-day price changes. The Board handles all marketable surplus of foodgrains in the country irrespective of the fact whether they originate in the European or in the African agriculture. The surplus foodgrains of the European farmers and that of the African farmers in the Purchase Area are delivered direct to the Board for sale. It is the collection and transportation of the small individual surplus food grains of the African farmers in the tribal areas, where transport and communication facilities are extremely inadequate, which possess special problem in marketing. In order to meet this problem and to encourage the sale of African produce, the Board provides certain marketing facilities in the tribal areas by appointing local agents, whose handling charges are fixed. Besides, the members of the African

31. It may be stated that this does not apply to the marketing of the main agricultura crop of Southern Rhodesia, viz, virginia flu-cured tobacco, which is sold on three International Auction Floors at Salisbury.

32. The Grain Marketing Board of S. R. replaced the old Maize Control Board which was set up in 1940 following the Maize Control Act of the same year. The function of the Maize Control Board related only to the marketing of maize and excluded from its scope the marketing of other small grains like 'munuga', 'shogum', 'rupoko' and groundunt. But the present Grain Marketing Board covers not merely maize but all other small grains excepting 'rupoko' which was decontrolled 30th. on April 1962.

Co-operative Societies [33] and those individual African farmers who could deliver at a minimum 26 bags of maize or other grains at a time have also a direct access to the Board. In such cases the middlemen or the agents ere eliminated and the African producers get the full prescribed price for the grain less the Native Development Fund levy.

A comparison of the price structuies of African and European manufactured grains reveals the extent to which the African farmers are handicapped. A European farmer gets the full prescribed price of grain less the price of new sack, for he provides for his transport and delivers the grain direct to the marketing Board. While his African counterpart gets much less than the prescribed price as he has to pay for transport cost at a flat rate irrespective of the distance, the handling charge, a development levy of 10 per cent of the total value of grain sold to the Board as per the Native Development Fund Act of 1948.

TABLE 3

The Maize Price structure administered by the Grain Marketing Board in 1962 for African produce.

		s d
Prescribed price for 'A' grade Maize per bag (200 lbs.)	..	29·7
Price of a new bag	..	3·7
	..	26·0
Native Development Fund Levy 10%	..	2·4
		23·8
Transport charges per bag	..	6·0
		17·8
Handling charge per bag	..	3·0
Net	..	14·8

Source :—The report of the Secretary for Internal Affairs and Chief Native Commissioner for the 54 year 1962, Southern Rhodesia, PP. 54

33. The African co-operative societies for marketing started in Southern Rhodesia in 1956 following th Co-operative Socities Act of the same year. Between 1956-62,53 African co-operative societies came into operation with a membership of 4, 937 farmers administering 130 buying depots. Despite this progress, only 5 to 7 per cent of the total African grain production was marketed through co-operatives as against 85 to 90 per cent handled by the buying agents in 1962.
'Report of the Economics and Marketing Department', 1962, pp. 73.

The estimate in Table 3 shows that in 1962 the African producers in general, with exception of those who marketed their maize through the co-operatives or delivered direct to the Board, received approximately 50 per cent of the prescribed price for maize.[34]

The Native Development Fund Levy or better the Native Production Fund Levies, instituted in 1949 following the Native Development Fund Act of 1948 is imposed on the sale proceeds of the marketed African-grown maize, groundnuts, cotton and other small grains, and on the African-owned cattle. This levy is a convenient way of taxing African agriculture and the proceeds from this are to be utilised for the purpose of general infrastructure development in the tribal areas. This fund is supplemented by the grants-in-aid from general revenue. Thus, prima facie, the scheme appears to be sound in so far as agricultural development is self-financing and what the individual African farmers could not do are now being done through this fund jointly. This may be a convenient, though not an effective,[35] way of taxing African agriculture. In the absence of such a levy, African agriculture would have escaped taxation and surplus purchasing power in the hands of Africans may have been diverted to non-capital expenditure, for it may well be that their income-elasticity for consumption is high. The subsistence farmers may even in this case consume most of the surplus foodgrains meant for market, particularly when their income elasticity of demand for food is high.[36]

It, therefore, follows that the removal of the Levy is likely to reduce the marketable surplus of African agriculture and, as such, will be detrimental to agricultural development. But such a levy is not without criticisms, and the most important one is its discriminatory character in so far as it applies only to African-grown produce but not to that of the Europeans'. In the absence of a developed, efficient, and cheap means of transport in the tribal areas the transport cost for African farmers is already high, and the in absence of a widespread establishment of co-operative societies, the agents or middlemen get a share from the proceeds. If, in general, African farmers are not near the railhead like their European counterparts, it is not their fault. Instead, it is the obvious outcome of the Land Apportionment Act. All these impose a heavy burden on African farmers and the development levy is an additional burden. Besides, the Levy is likely to prevent the more enterprising African farmers to increase the marketable surplus. Thus, it can be argued that such a

34. R. W. M. Johnson : The Economics of Equality—African Rural Marketing in Souther Rhodesia, U. C. R. N., Technical Paper in Agricultural Economics No .6, 1963, pp. 4.
35. I say the present Native Development Fund Levy is not an effective way of taxing African agriculture; for in order to avoid paying the tax, farmers may either increase their consumption or sell the surplus among themselves instead of bringing them to the regular marketing channels. There is even the possibility of illegal sale to European farmers who do not have to pay the Levy.
36. Phillips Report, op. cit., pp. 277.

discriminatory agricultural tax is more likely to depress rather than to stimulate the already lagging sector of African agriculture.

If the surplus from agriculture is to finance general economic development, it is natural that it should be drawn from all sections of farmers : Europeans as well as Africans. Many Africans, being discontented, do not sell their surplus to the Board in order to avoid the levy. In the event of a general extension of this Levy to the total produce marketed through the Board irrespective of their origin, the present discontentment will disappear and this will be a factor conducive to the development of African agriculture. If this Levy is a forced saving, essential as it is for general economic development, then there is every justification for its general extension.

V. Agricultural Credit :

The efficiency of agricultural industry depends, to a large extent, upon the availability of credit to farmers. This is particularly true of African agriculture in Southern Rhodesia, where a majority of Africans are poor subsistence farmers and are badly in need of credit for farm development. In the past, this aspect of agricultural development was neglected and credit facilities were not extended to African farmers. The majority of African farmers were hampered in the past to be eligible to get farm loans due to the lack of some negotiable assets like land. The Europeans, on the other hand, had no difficulty to get farm credit from the Land and Agricultural Bank of Southern Rhodesia, which was established in 1924 to finance European agriculture exclusively. Between 1924-61, the Bank granted a loan of £ 25·5 million to some 18,962 European farmers. Besides, the Bank has also administered a credit of £ 2·5 million on behalf of the government to assist the European farmers foı certain specific purposes.

TABLE 4

Loans administered to African farmers from N. D. Fund, Land bank, African Loan Development Corporation of Southern Rhodesia 1958-1962.

in £

	1958	1959	1960	1961	1962
Native Development Fund Loans	6,568	39,332	46,079	90,341	37,502
Land Bank Loans	..	..	...	...	...
African Loan Development Corporation Loan.	...	...	...	..	...

Note :—Figures for Land Bank Loans and Loans from African Loan Development Corporation are not available as they have started giving loan from 1962.

Sources :—The Loan figures for Native Development Fund Loans are quoted from Table 22, PP. 72 of the Report of the Secretary for Internal Affairs and C. N. C., for the year, 1962.

Similar credit facilities for African farmers have started lately in Southern Rhodesia. It was only from 1958, the government implemented a loan scheme covering short, medium, and long-term loans to African farmers. The loan is financed from the proceeds of the Native Development Fund either to individual farmers or to co-operative societies on a revolving basis. Another institution, the African Loan Development Corporation, came into existence in 1962 for advancing loans to African agriculture. The Land Bank has started in 1962 giving loans from a limited scale to progressive African farmers of the Native Purchase Areas, where free hold tenure exists and land is thus a negotiable asset. This privilege is denied to the African farmers of Tribal Trust land for whom land is not a negotiable asset as per the the Native Land Husbandry Act which entitles an African only to a "farming right" without the ownership right.

Conclusion :—The foregoing analysis clearly reveals the relative backwardness of African agriculture in Southern Rhodesia. This was the deliberate policy of the White rule in Rhodesia. A policy of integration of Europeean and African agriculture has never been pursued in the broader economic interest of the country. Although apartheid was never an open policy, the analysis presented in this paper clearly proves the existence of economic dualism in that country. Racial status and race relation is the most important criterion for deciding economic issues in Rhodesia and, as such, anything which is economically viable may not be politically tenable.

SOME ASPECTS OF PREFERENTIAL EXCISE DUTIES IN INDIA

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In recent years the developing countries are found usingtaxes as a tool for regulating economic activities either regardless of revenue yield or with revenue as a subordinate consideration. The concept of fiscal preference and regulation in the sphere[1] of excise duties is not new in India. The imposition of the countervailing cotton excise duty in 1894 was meant to regulate home industry. In 1917 excise tax was levied on petroleum as a war measure 2 "in order to restrict the consumption of petrol in India". Again in 1934[3] sugar excise was partly intended to check unhealthy spurts in the growth of sugar industries. During the plan period excise duties have been copiously used for solving the needs of developmental finance as far as practicable. The novelty of the present fiscal regulation lies in its variety and ramifications. Excises have been used to augment collective saving. This is a resource reallocation and resource mobilising function. They are used for purposes of stability. They are also deployed as instruments of price policy. Further, they are intended for building up export surplus. An important aspect of the tax is the differential excise system devised for promoting cottage and small industries. All these are apart from the increasing revenue needs of the civil administration and defence for which also the excises are increasingly resorted to. As a matter of fact excise taxes have become one of the principal regulators of the economy. The present discussion aims at an appraisal of the working of differential excises in India.

In a planned economy all techniques should be used to maximise output and social welfare. From the angle of production, planning involves a judicious reallocation of resources in desired channels so that resources are optimally utilised at minimum[4] social cost and maximum social gain. A planless economy is a "drift economy" which never automatically guarantees the above condition. It has to be regulated into yielding such a result. In this context role of taxation is important. All taxes have diversionary effects and as such can be used by exempting or taxing less the desirable lines of production and attracting into them resources and by taxing at higher rates undesirable channels and forcing resources out of them to reallocate resources for optimum production

1. R. Dutt, The Economic History of India, Trumber's series 1956 p. 537-544.
2. Review of the Central Excise Administration in India, 1939-40. P. I.
3. Tariff Board (for sugar) 1949 P. 6 Budget for 1934-35.
4. M. H. Gopal—Planning of production through Tax Adjustment, Indian journal of Economics, Vol. XXIX 1948-49. p. 155.

and employment.[5] "The general principle of using the machinery of differential taxation to direct, stimulate, if need be, retard the flow of new investment is admittedly desirable. Indeed, it is perhaps one of the best means to these ends."

The Taxation Enquiry Commission,[6] 1953-54 has approved of the idea of using tax system for the purpose[7] of giving encouragement to cottage and small scale sector. A committee appointed by the planning commission under the chairmanship of Prof. D. G. Karve has also favoured fiscal preference as ways to provide fillip to small industries. The committee has examined the ethics of using excise duties to realise this end. It says excises have three functions in this context. The first is the task of raising funds from the consumers of a product for rehabilitating a weak section of the producers of that product. It is argued that large scale industries confer a differential advantage on their consumers and it is the responsibility of this section of consumers to safeguard and rehabilitate a backward section of the industry. The second objective of excise policy is to take away a slice of profit accruing to the advanced section of the industry. The government in the interest of development either limits further expansion of industries or encourages enhanced production. Either way industries do get opportunities to create closed market for their products and charge higher prices and earn larger profits. Since all this is the result of national policy, a part of the profit going to the entrepreneurs should be mopped up by excise levies. The third function of excises follows from the second one. The imposition of excise duties for the second objective will create a price differential in favour of the small and cottage industries. Besides, there are other reasons for which the cottage and small sectors receive differential treatment. Administratively it is not always possible to collect taxes from small & scattered units of production. Further the cost of production in such sectors is usually high; consequently their capacity to bear tax is less. Again there is the necessity of encouraging units which engage more labour and less machine. Thus it is seen that a differential excise tax has been suggested as a suitable promotional device. It must be made clear at this stage that the fiscal preference by way of differential tax is only one of the facts of resource reallocative function of a tax.

Cottage and small scale sector is an obvious recipient of the benefits that flow from such a scheme of fiscal preference. Till* the middle of the First Five Year Plan the policy has been to exempt the products of the cottage sector from excise duties. This is so till to-day. From the beginning of the

5. The Economist—30th January 1943 p. 149.
6. Vol. II p. 314 Para 67.
7. Report of the village and small scale Industries (Second Five Year Plan) Committee 1955 p. 31.

* with the single exception of the match industry.

Second Plan small scale industries which used power and up-to-date technique increasingly came into existence. Such industries are less viable than the organised big industrial units and they deserve encouragement for their growth. The Government have used differential excise system to provide varying scales of relief to small scale sector. These schemes are put into practice by formal exemption limitation Notifications[8] under Rule 8 (1). The principles or bases on which reliefs are granted are many in number. There is free slab for all manufactures regardless of volume of production. There are preferential slabs for specified quantities to manufacturers of vegetable, non-essential oils, matches, cycle tyres and tubes. There are exemptions in units which produce electric batteries glass and glass-ware on the number of workers employed. Partial exemption is granted to those who use duty paid materials. Cotton powerloom fabrics under co-operative is exempted. There is total exemption based on end-use of goods in coffee when seeds are used for sowing, in jute batching soap when it is used in jute industry and in tyres meant for animal drawn vehicles etc.

Partial exemption is granted to kerosene and tea (not otherwise specified) depending on place of production. In this way the Central[8] Excise Reorganisation Committee lists a formidable array of concessions which go to show that excise duties have really acquired the status of a powerful weapon of control and regulation of economic activities. [9]

Fiscal preference has, without doubt, conferred great benefit on cottage and small industries which have maintained a continuous steady growth during the plan period. Yet it must be admitted that during the working of the excise policy of regulation, many abuses have been noticed and many difficulties have been experienced.

(1) The most glaring defect of the system is the temptation which the scheme affords to large and organised industries to be fragmented, genuinely or in make believe ways, to avail themselves of the benefits of lower excise rates. Further marginal producing units regulate their quantities of production within the free or preferential slab rates. This means that the installed capacity is not fully utilised. Ultimately output does not increase and revenue is sacrificed. Thus, the two-fold objective of excise duties to raise revenue and restrain consumption so as to secure greater surpluses for export are incapable of attainment with built in disincentives to further increasing production". [10] The purpose of differential excise is actually defeated in such cases. Vegetable product was excised in 1943; production of this good increased till 1958 when preferential slab rates of duty were introduced. From 1958 to 1962 deliveries

8. Central Excise Reorganisation Committee 1963 page 70.
9. Page 90.
10. C. E. R. Committee Report, p. 75, Para 21.

from factories were 83,900; 83,700; 85,300 and 84,200 respectively and they were all within the exemption slabs. Writing about this the Central Excise Reorganisation Committee points that " many of the manufacturers had no interest in expanding production". [12]

Scrutiny of their production records shows a clear pattern to cease operations just short of the limit beyond which the next higher or the standard rate of duty became applicable. The exemption was however withdrawn in April, 1962 but by then nearly over Rs.60 lakhs of revenue had been sacrified. This is unfortunate because during the same period, several new duties with much less revenue were imposed. The abuses of fiscal preference is best known in the match excise tariff. In spite of a excise preference for factories in the organised sector ever since 1961 the total production went down. This is evident from the following table.

TABLE 1

Production of Matches by Factories of Different Categories:

Category	Number of factories			Production (million sticks)		
	1960	1961	1962	1960	1961	1962
B	61	44	41	20,060	89,560	76,210
C	153	243	438	11,120	37,400	63,865

Source;—Central Excise Reorganisation Committee Report, p. 166

Concessions have led to decline in output of 'B' category factories. They were fragmented into 'C' factories whose out-put and number went up significantly.

(2) The system of excise concessions and reliefs leave too much scope for corruption and malpractices. Manipulation of accounts to avoid higher rates become unusually attractive. As the concessions are administered through assessment of individual consignments, the scope for collusion between tax officials and industrialists was left wide. To check manipulations and malpractices the government tries to extend excise surveillance to free sector and keep additional vigilance over tax officials. Concessions are protected against abuse by issuing additional conditions. All these make administration

12. Report, P. 76, Para 23.

complex, and irksome without achieving the desired result. The observation of the Central Excise Reorganisation Committee is again pertinent in this connection. It said, [13] " As the revenue administration cannot hope to match the resources and wiles of the determined tax dodger it amounts frequently to playing a losing game. The vicious circle in which greater effort and expense is incurred to collect less than the standard revenue is completed. Real revenue control is sacrificed but impressive looking paper controls increase". Authorities like[14] Dr. P.S. Lokanathan and[15] Dr.Gadgil spoke against granting concessions as a method of encouraging trade or industrial activities. They were, of course, not against the principle as such but against the abuses it entailed. Dr. Gadgil wanted that the sphere of exemption should be small and well defined so that it can be better administered without encouraging corrupt practices. We have noted the long list of exemptions and preferences. It is remarkable that no common principle weave them together. The schemes are often " evolved on a rough and ready basis and do not contribute to the formulation of a deliberate, overall and co-ordinate tax or economic policy "[16].

(3) It is alleged that preferences for different sectors within an industry disturb the inner equilibrium between them. The Central Excise Reorganisation Committee were [17] told that an excise on liquid oxygen might lead to a shifting of consumption to the scarce conventional explosives. This may not be desirable.

(4) Principle of equality of taxation for the same good is defeated by such a scheme. It is argued that goods produced by the powerloom sector of cotton textile indusry is used by both the rich and the poor class, but it bears a lesser amount of excise burden.

(5) In the absence of excise duty, the large, the small and the cottage sectors develop their own balance and equilibrium which usually has helpful effects on prices. As soon as an industry is begun to be taxed, pressure for concessions develop for the small sector leading to fragmentation and waste of industrial capacity.

(6) One of the main reasons which impelled the government to take recourse to differential excise system in favour of small industries is the consideration that incidence of tax which immediately falls on the producer is more burdensome to the small producers. But extensive use of such scheme has

13. Report, p. 74, Para 20.
14. Report on the Simplification and Improvement of the Sales Tax System in Madras by Dr. P. S. Lokanathan, Dec. 1957, p. 20.
15. See Report of the Sales Tax Enquiry Committee, 1957-58. Dr. Gadgil reported in 1946. The present report contains quotation from the previous report, p. 77, Para 26.
16. Central Excise Reorganisation Committee Report, p. 77, Para 27.
17. Page 75, Para 22.

only led to small revenue gains. In U. N. ECAFE Survey the baneful effects of the obssessive extension of fiscal preference has been pointed out. It is said that[18] "the pre-occupation with questions of incidence, when carried to the extreme and applied to every individual tax, is likely to lead the tax system eventually into losing revenue and making it regressive in relation to national income if the bulk of the rise in the national income goes to increase although by a little, the small incomes of the poor. In such circumstances seeking progressivity māy lead to a regressive tax system. Indeed, it is not the incidence of an individual tax but that of the tax and expenditure system as a whole which should matter in this regard. Taxing a few necessities or lowering income tax exemption limits or devising schemes of rural taxation will take the tax system more progressive in relation to national income; it will raise incremental income "non-consumption" ratio for the economy as a whole. If the poor have little choice between paying taxes and remaining in "disguised unemployment" or suffering inflation, they will be better off paying the taxes".

(7) It is again alleged that the cottage sector enjoys certain advantages peculiar to them and as a result are able to undercut even the mechanised and well organised sectors of the industry. The cottage sector pays substandard wages, their overhead cost is small; the welfare expenditure is less as the producers are not bound by the labour laws. Besides they find their raw materials like timber close at hand. This is so in case of match industry in Madurai district of Madras State. Here again the natural condition of dry climate is congenial for sundrying of match sticks. All these enabled the cottage sector to produce matches at lower costs. Though initially the differential excise benefited the cottage sector,[19] "the difference between the wholesale rates of factory made and cottage matches grew so wide as the years passed that there was really no object in the excise rebate which was promptly passed on to the middleman as cottage units undercut one another's already low prices". This shows that revenue is sacrificed unnecessrily.

(8) The Central Excise Reorganisation Committee has found that the existing schemes of fiscal preference are very much ineffective in their promotional effect because of two reasons. Firstly, preferential rates are admissible on the basis of goods delivered from factories. This means that gains to the small industries accrues only in iotas and consequently are either not felt or wasted. Secondly, as noticed earlier the middle men are always out to exploit the small scale producers. The duty preference is enjoyed by them; it does not reach the producer nor does it benefit the consumer. To overcome these defects and to make the system truly promotional in nature, the Committee wants a radical[20] departure from the system in charging the small industries duties at standard

18. U. N. Ecafe Survey, 1960
19. Akbar Hydari—Reorganising the Match Industry on more Efficient Lines, Supplement to Capital of 28th June, 1962, p. 49.
20. Report, p. 78, Para 30.

rates and granting them periodically cash bounties. This will ensure that fiscal aid is received by those for whom it is meant. It becomes more effective because it is tangible. Further tax assessment and administration become very much simpler. The committee thinks[21] that the principles and scales of subsidy should be determined after proper enquiry by an expert body like the Tariff Commission which should also be entrusted with the work of reviewing the scheme periodically. Such a proposal seems attractive and should be examined by the government. Intitial difficulties may arise for the small producers in the first stage of changeover. The government should give due consideration to them. Again the fact that standard rates will be applicable to the small producers in the changed scheme may invoke protest on the ground that standard rates would prove burdensome. The government should resist such protest and make the agitators realise that present differential excise only benefit the unscrupulous middleman.

Conclusion :— [22] P. N. Dhar and H.F. Lydall in their illuminating book have cast serious doubt about the whole scheme of creating small factories. They find that the newly established small modern factories make use of more capital and more labour in relation to their output than the organised big factories. The policy should therefore be not to help multiply small units[23] "for their own sake, but towards a general improvement in the efficiency of existing enterprises and the creation of opportunities for enterprising new firms to grow". This means that assistance whether in the shape of cash subsidy or concession through differential tax system should be strictly on the basis of improvements adopted. There would be huge loss of capital if blanket[24] help to all and sundry is given. Efficiency should be the ultimate test for awarding help.

As regards the nature of help, many argue in favour of a direct cash subsidy from central revenues which will enable manufacturing units to adopt up-to-date method of production. This is a very helpful suggestion and should be tried.

The incentive scheme through differential excises should not be discarded outright. It should be applied judiciously on the basis of proven merit. Both the system of cash subsidy and tax preference should be kept under strict[25] supervision to test effectiveness of the weapons employed. Another thing which should underlie the scheme of help is that they must be transitional in nature. Assistance should aim at lowering cost, removing barriers and increasing efficiency. After these are achieved, there is no need for continuing help to a producing unit.

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21. Ibid, Para 32.
22. The Role of Small Enterprises in Indian Economic Development, 1962, Chap. V.
23. Ibid page 86.
24. Vera Anstey—Aj Introduction to Economics 1964 p. 206.
25. See Taxation Enquiry Commission Report Vol. II Page 314.

SOME PROBLEMS OF URBAN LOCAL FINANCE IN ORISSA

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There are at present 19 municipalities and 41 notified area councils which constitute the urban local bodies in Orissa. Their common sources of revenue comprise taxes, charges for services rendered, license fees and fines, Government grants and profits from commercial enterprises, if any. Under section 131 of the Orissa Municipal Act, a municipality is authorised to impose holding tax, latrine tax, water tax, lighting tax, drainage tax, taxes on carriages, carts, horses and other animals, profession tax, poll tax, fee on registration of dogs, octroi duty and any other tax or fee for services rendered by the municipality for the health and convenience of residents. The municipalities can also levy a fee not exceeding one rupee for every transfer of title to a holding and a license fee on industries and factories including dangerous and offensive trade. Grants or Grants-in-aid are given for municipal development work relating to unremunerative schemes, for improvement of roads, or meeting dearness allowance of the local body employees or for management of Nazal lands. Similarly there is provision for grants of loans to urban local bodies for remunerative projects undertaken by them.

All the above sources of revenue are not utilised by all urban local authorities. From their tax structure, it will be noticed that all the municipalities in Orissa were levying tax on animals and vehicles. The property tax, profession tax, octroi and service taxes were being levied by 89 per cent, 78%, 17% and 89% of the municipalities[1] respectively. The octroi which has been condemned as " repressive in incidence, inequitable because of fraud and highly inconvenient to the tax payer[2] is levied by only 3 municipalities in Orissa and by none of the notified area councils. Further, two of the three municipalities which are levying octroi do not levy any property tax. The property tax, service taxes and profession taxes are collected by 90%, 70% and 80% of the notified area councils respectively.

Further, it has been estimated that 70% of tax revenue of the Urban local bodies are derived from property and service taxes, while tax on animals and vehicles contribute only about 9% of the tax revenue. Octroi because of its unpopularity is an insignificant source of revenue. None of the municipalities have yet undertaken levy of obligatory fee on transfer of property, nor have

1. Report on Augmentation of financial Resources committee—Page 284.
2. U. K. Hicks—'Development from lelow'—Page 293.

they undertaken any profit earning enterprise on a large scale. The non-tax incomes which formed 19·70% of the total income during 1960-61, include mostly fees, rents and loans collected by local bodies.

This failure to take resort to all kinds of local taxes is an inherent defect confined not only to the urban local bodies in Orissa but the trend is noticeable throughout India. In 1962-63, 21% of the local bodies in India were levying no property taxes, 54% were levying no service taxes and 27% were levying no vehicle taxes[3]. Similarly in 1960-61, 35% of the municipalities in Gujarat, 18% in Madhya Pradesh, 35% in Punjab, 83% in Rajasthan and 40% in Uttar Pradesh were levying neither property taxes nor any of the service taxes.[4]

Thus the general trend in the finances of Urban local bodies is that they are unwilling to fully exploit their tax potentialities apparently with a view to gain cheap popularity[5] Their attitude has been one of 'no funds-no work approach' which is a static approach to limit their programme of work to availability of income rather than apply themselves to the tasks and assessing the needs and mobilising resources for it. Gain of cheap popularity by a few councillors should in no way conflict with the economic progress of the area. What is forgotten is that local bodies can develop as engines of economic development, besides providing the basic amenities to the local people and besides serving, as training ground for democracy. What is, therefore, necessary is that the urban local body's taxes should be classified into compulsory and optiona and suitable law should not only prescribe minimum rates for the compulsory taxes but should enforce levy and collection of the majority of taxes by th local bodies.

One more problem, in this connection, which needs urgent attention is proper valuation of the annual value of holdings so that the rise in value of urban site land can be properly assessed for expanding sources of revenue. At present the valuation is done by the Executive officer who is very often subjectto local influence and the result is in 90% of the cases, there is under-valuation Moreover the valuation is not subject to periodical revision and the present basis of annual rent as the basis of property tax assessment is not satisfactory from the point of view of mopping up of unearned increments of land values. Accoring to Dr. Gyanchand the capital value makes a more correct estimate of the taxable capacity of the owner. But the Local Finance Enquiry Committe 1951 and Taxation Enquiry Committee, 1953 have maintained that "there should be no change from the well tried basis of rent to the more or less uncertain basis of capital value."[16]

3. Report of the Rural-Urban Relationship committee.
4. Report of the Augmentation of financial— p. 293. Resources Committee—Page-286.
5. Report of Orissa local body Adm. Enquiry Committee—Page-14.
6. Local finance enquiry committee Report Page 122.

But what is necessary is that there should be an independent central valuation agency set up by the State Government which should be entrusted with not only the initial valuation but also periodical revisions in valuation. The mopping up of unearned increments of land values can be easily done by levy of a Betterment levy or stamp duty on transfer of urban properties or some tax like urban land tax as is levied in Madras from July, 1963 or Building tax in additions to holding tax as is done in Mysore from 1962. This will certainly help to augment the existing resources.

Another noticeable feature in the finances of Urban local bodies is that the tax collections are very poor and there is a very large amount of arrears. In Orissa, for example during 1960-61, the percentage of collection to demand has been only 51·3 in case of municipalities and 34·9 in case of notified area councils.[7]

(A) Municipalities

Year	Total tax (assessed in rupees)	Total tax collected	Percentage of collection to demand
1958-59	26·33	20·12	76·4
1959-60	39·94	23·20	58·1
1960-61	78·42	40·31	51·3
	(B) Notified Area Councils		
1958-59	6·18	3·92	63·5
1959-60	9·68	3·97	31·7
1960-61	14·41	5·03	34·9

This tendency shows the lack of interest on the part of municipality authorities to enforce the law or to gain cheap popularity and it also brings out the weakness of the inefficient and ineffective tax-collecting machinery. A comparative study of the different methods adopted by local authorities is therefore necessary to see if the methods of collection are ill-adopted to circumstances. Where population is mostly illiterate and communications are poor taxes must be collected by personal contact, but in such cases, besides the usual remuneration the percentage commission method of payment should be adopted to provide incentive to tax collectors. According to an U. N. report, the method of collection should be determined by particular circumstances of the region.[8]

7. Orissa Local Body Adm. Enquiry committee Report, Page 21.
8. U. N. Report Decentralisation for National and Local Development, Page 61,

The comparative importance of tax revenues, non-tax revenues and government grants to the urban local bodies has been shown in the following tables.[9]

(A) Municipalities *(In lakhs of rupees)*

Year	Total Revenue	Total-tax Revenue	Percentage	Non-Tax Revenue	Percentage	Grants	Percentage of total revenue
1958-59	59·62	20·12	33·7	14·75	24·8	19·58	32·8
1959-60	66·98	24·79	37·0	12·88	19·2	24·02	35·8
1960-61	60·67	23·47	38·7	11·95	19·7	21·94	36·2
(B) Notified Area Councils							
1958-59	10·48	3·92	37·4	2·17	20·8	3·51	33·5
1959-60	9·77	3·07	31·4	2·90	29·8	3·05	30·4
1960-61	10·03	5·10		3·38	24·1	4·99	35·6

(C) Income and expenditure of Urban Local Bodies during the year 1960-61 *(Rs. in lakhs)*

	Income	Expenditure	Surplus or Deficit
1. Municipalities ..	54·63 (2·88)	66·45 (3·50)	—11·82 —(0·62)
2. Notified Area Councils ..	·57 (0·58)	14·43 (0·43)	+ 1·14 +(0·05)
3. All Urban Local Bodies	70·20 (1·52)	80·88 (1·76)	—10·68 —(0·24)

(Figures in brackets indicate average local body)

9, Report of Orissa Urban Local Body Adm. Committee Page 24-25, During the year 1960-61, the total ordinary income of Urban Local Bodies in Orissa was Rs. 70·20 lakhs and their expenditure amounted to Rs.80·88 % lakhs showing a deficit of Rs.10·68 lakhs on Revenue account. It has been estimated that a municipality in Orissa is incurring a deficit of 21·5 % of its ordinary income. Further the average income and expenditure of a municipality in Orissa has been Rs.2·88 lakhs and Rs.3·50 lakhs respectively, the comparative all India figures being Rs. 4·27 lakhs and Rs. 3·95 lakhs respectively. This shows the comparative povertyof the region. Again during the same year, the *per capita* income of Urban local bodies was Rs.9·52, out of which tax income accounted for Rs.4·10 and grants, Rs.4·01, and the remaining sum of Rs.1·41 was raised from non-tax resources. The corresponding fugures for notified area councils were Rs.3.95, Rs.1.54, Rs.1.65 and Rs. 0·76. If we compare the *per capita* figures of 1950-51, we will find that the *per capita* ordinary income has risen by about 34% while State Income during the same period has risen by about 175%. Similarly the muncipalities, during the same period were able to increase the incidence of taxation by Rs.0·26 while the State taxes have increased their incidence by Rs·3.31. This indicates that the local sources of revenue have been definitely inelastic and static compared to the sources of revenue of the State.

Further, we may notice, from the above figures, that because of inelasticity of tax revenue, the grants in the tax structure have become almost of equal importance with that of tax revenue. It has been estimated that in our State, the aggregate financial requirements of Urban local bodies is about Rs.5 crores as against the present revenue of about 50 lakhs. The Central and State assistance in the shape of grants and loans come to about Rs.1501 lakhs. There still remains a gap of more than Rs.3 crores. Because of the wide gap in resources and needs of local bodies, local bodies have shown increasing dependence on State governments for grants with the resulting strain on State resources. " The Central problem in local finance is therefore the purposeful matching of obligations and resources ".[10] The delegation of functions should be attended with an appropriate devolution of resources and it must be ensured by the State Government that resources available have relations to the functions delegated and that with the help cf these resources, the functions are properly discharged.

It is, in this context, that some of the recommendations of the Orissa Taxation Enquiry Committee and the Orissa Local Body (Urban) Administration Enquiry Committee should receive careful attention of the State Government.

Whenever there is a large floating population with no taxable property owing to industrial development or emergence of new occupations, levy of

10. K. Venkataraman—Local Finnce Perspective Page 4,

octroi should be permitted. A portion of sales Tax and Entertainment Tax realised in the area should be handed over to the concerned Urban local body, besides allowing the local bodies to levy an additional sales tax. A portion not exceeding 5% of the annual collections of electricity duty also should be made available to local bodies.

Important sources of non-tax revenue like pisciculture, manufacture of improved compost, management of slaughter houses, and town transport services should be tapped by the local authorities and the initial Capital expenditure may met by floating of loans in the market.

In a developing economy, the tax efforts are largely an index of the economic base within the area. With increase in degree of urbanisation and industrialisation, diversification and expansion of agriculture and industry, growth of commerce and trade and bigger exploitation of natural resources, the economic base is strengthened for further taxation and there is no reason why stagnant and static conditions in local finance should be allowed to continue in the present expanding economy.

Goswami Press Cuttack-2

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Dated 13-9-68

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