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**T R A D E U N I O N R E S E A R C H**  
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The purpose of this bulletin is to give economic notes in connection with labour movement in India and abroad. In this issue, we have brought to light the synopsis of researches carried out by our bureau on a few topics. It is hoped that this bulletin will be published once a month regularly. Persons interested may contact at the above address.

EDITORS.

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1. Is bourgouise propaganda about income taxation a correct one ?

The national bourgouise and their foreign collaborations, viz., American, West German etc. have clearly stated times without number the 'necessity' for reducing income taxation rate, as they nurse the idea that the present income tax pattern puts a deterrent to a 'favourable climate for new investment'. Sri Asoke Sen, the Central Law Minister, has gone far to say that the sources of income have already been dried up and the increasing taxation rate has brought only diminishing returns in production (see 'Economic Review' 15th Nov. '57). The recent issue of Tata Quarterly has also advocated to increase the revenue by indirect taxation. F.I.C.C.I. has published a booklet with too much of data to show that taxation rate is too high. So, a question comes up, - "Is the present income tax pattern a deterrent to production?"

Trend of Income

For finding out the trend of income, we may probe into taxable income, because the men within higher income groups are only taxed, and they have a high propensity to save (as also to hoard), and their savings are channalised to investment stream. The following data may be considered in this connection.

No. or occupation.	Income in Crores of Rupees.		% of Col.(4) to (3)
	1952-53	1956-57.	
1	2	3	4
1. Mines, Quarries etc.	14.63	19.15	127
2. Food manufacture etc.	28.99	45.75	159
3. Textile, Hides etc.	41.91	55.42	134
4. Manufacture of cement, Rubber & mineral products	20.81	28.80	145
5. Building etc.	16.19	21.21	131
6. Manufacture of Metal, Chemical etc.	27.94	44.13	163
7. Distribution & Communication	175.87	245.31	130
8. Finance	56.25	80.36	143
9. Profession etc.	28.82	54.61	135

(The above data compiled from 'Income Revenue Statistics').

So our findings are - (a) 43% of total income tax revenue comes from distribution and communication. (b) The ratio of income tax revenue from manufacture of metal, chemical etc. in 1956-57 to that of 1952-53 is 1.63, though the ratio of income tax revenue of the same source to the total income tax revenue was .07 in 1952-53 and .08 in 1956-57. (c) The ratio of income tax revenue from manufacture of textile, hides etc. to total income tax revenue was .1 in 1952-53 but .095 in 1956-57. But the percentage of revenue from the same source of 1952-53 stands at 134.

(d) The ratio of revenue from manufacture of Rubber, Cement and other mineral products etc. to total income tax revenue stands at .05 in 1952-53 and in 1956-57. But the percentage of income tax revenue of 1956-57 to the same of 1952-53 works out to be 145. So, to sum up the percentage of income tax revenue from distribution and communication to the total is much higher than the corresponding figure in the case of manufacture.

Causes behind it

The sole cause behind it is that prospective yields are greater in selling and trading than in manufacture. The profit-seekers avail themselves of speculation in trading. The following data may be discussed in this connection :-

TABLE II

Year	Mines	Income in crores of rupees		
		Textile manufacture.	Cement	Retail and wholesale trading.
1952-53	5.35	28.18	3.71	161.45
1953-54	5.80	26.27	3.91	166.73
1954-55	3.96	21.20	3.81	179.55
1955-56	6.48	20.58	5.35	185.03
1956-57	5.42	29.15	5.72	227.32

(Source : Reserve Bank of India).

From Table II we find that - (a) Taxable income from selling has increased by 134% from 1952-53 to 1956-57. (b) The rate of increase of taxable income from trading is much higher than the corresponding figure of manufacture, and the scope of speculation is much higher in the former. Now some may argue that capital is flowing more into trades than into manufacture, because the profit-yield is not favourable in the latter. But these watch-dogs of capitalists may be reminded of the rocketting profit-index, which we put here below for them.

TABLE III

Trend of Profit (1930 = 100)

	1947	1956
1. Textile	317.7	568.4
2. Iron & Steel	86.1	293.3
3. Tea	216.3	346.6
4. Sugar	171.5	454.5
5. Paper	167.7	749.2
6. Cement	142.5	430.2

(Source : Department of Company Law Administration)

This we believe is enough to whip away the so-called sophisticated arguments of the bourgeoisie to ask for relief in income tax, and thus strengthen their advocacy to enhance indirect taxation for meeting Plan expenditure. This rise in indirect taxation in the scale-up of the working class cost of living index.

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/ ASSISTANCE FROM THE GOVERNMENT OF RUMANIA /

An agreement with the Government of the Rumanian Peoples' Republic was executed on the 20th October, 1958, for the establishment of an Oil Refinery in Assam, with a processing capacity of .75 million tons per annum.

2. The Government of Rumania have offered on long term credit, Rs.5.3 crores, being the total estimated value of the supplies to be made, and the technical and other services to be rendered by them for the erection and construction of the refinery. The credit will be subject to an interest of 2.5 per cent per annum. 15% of the credit will be repaid in six instalments the first one to commence 30 days after signing the Agreement and the last one 30 days after the refinery has been commissioned and is able to produce the full range of products. The balance of 85% of the total credit will be repaid in 10 instalments with the first 2 instalments commencing on the 31st December, 1961 and the last one ending on the 31st December, 1965.

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ASSISTANCE FROM U.S.S.R

Assistance received from the U.S.S.R. is mainly in the form of long term credits for the Bhilai Steel Plant and other development projects under the Five Year Plans. The total amount of credits for which agreements have been signed upto September, 1959 is 2709 million roubles (approximately Rs. 322.53 crores).

2. The Government of U.S.S.R. have also provided gifts of machinery and equipment, free services of Russian experts and training of Indians for the mechanised farm at Suratgarh and the Indian Institute of Technology at Bombay. The aid provided in the form of machinery and equipment is valued at Rs. 1.22 crores.

CREDIT FOR BHILAI STEEL PLANT

3. On the 2nd February, 1955, an Agreement was entered into with the Soviet Government for the establishment of an integrated iron and steel plant at Bhilai. The plant is estimated to cost Rs. 131 crores excluding the cost of township, railway works, land, ore mines and quarries, prospecting and designing, electricity and water supply, other ancillary equipment and personnel. Under the agreement the Soviet Government agreed to provide on credit, plant, machinery and equipment to the value of Rs. 63 crores. The credit is being raised upon each consignment and is repayable in twelve equal annual instalments payable on or before the 15th March of each year. Interest at 2½% per annum will accrue from the date on which each particular credit is raised. The project is nearing completion, and out of the credit of Rs. 63 crores, a sum of Rs. 62.51 crores had been used upto the end of September, 1959.

4. The first Blast Furnace of the Bhilai Steel Plant, with a designed capacity of over 1000 tons of pig iron per day, was inaugurated on the 4th February, 1959. The first Open Hearth Furnace for producing steel went into production on the 12th October, 1959. The work in the remaining departments is proceeding generally according to schedule. It is expected that the second Blast Furnace, and the Billet and Blooming Mills will be commissioned into production before the end of 1959. The other mills, viz. the Merchant Mill, the Rail and Structural Mill, and the third Blast Furnace are expected to be commissioned in 1960.

5. The plant under construction provides for the rolling of one million tons of crude steel into 770,000 tons of billets, rails and structural sections. In addition, there will be 300,000 tons of pig iron for sale.

CREDIT FOR INDUSTRIAL PROJECTS

6. Under an agreement concluded on the 9th November, 1957 the Soviet Government have agreed to give a credit of 500 million roubles (about Rs. 59.53 crores) for the establishment of the following industrial enterprises in India :-

- (a) A Heavy Machine Building Plant with a capacity, at the first stage, for manufacturing 45,000 tons of machinery items per annum;
- (b) A Coal Machinery plant with a capacity of upto 30,000 tons of machinery items per annum;
- (c) An Optical and Ophthalmic Glass Factory with a capacity of 210 tons comprising 200 tons of ophthalmic glass and 10 tons of optical glass per annum;
- (d) A Thermal Power Station in Neyveli (based on lignite) with a capacity of 25,000 kW;
- (e) Enterprises in the Korba Coal Fields for mining and treating 2.5 million tons of coal per annum; Coal Mines, a Coal Open Cast Mine, a Coal Washing and Dressing Plant as well as a Central Mechanical Repair Shop for repairing the equipment of the Coal enterprises with an overall output of 4 million tons of coal per annum.

The rate of interest is 2½% per annum and the credit is to be repaid in twelve equal annual instalments. The first instalment is to be paid a year after the completion of delivery of machinery and equipment for each industrial enterprise. Each subsequent instalment is to be paid twelve months after the previous one. The detailed project reports in respect of all the five industrial enterprises mentioned above have been received from the Soviet Organisations. For the Neyveli Thermal Power Station, two contracts, one for the supply of working drawings

at a cost of Rs.45 lakhs, and the other for the supply of plant, machinery and equipment, raw and reinforced steel and steel structurals, etc. at a total cost of Rs.13.055 crores, were concluded with Messrs. Technoexpert, Moscow in March, 1959 and May 1959 respectively. The delivery of equipment for the power station is expected to begin towards the end of 1959 and will be completed in the last quarter of 1961. The detailed project reports for Coal Mining Machinery and Heavy Machine Building Plant have been accepted by the Heavy Engineering Corporation. Further negotiations are under way for concluding contracts for the supply of equipment and other forms of assistance such as the supply of working drawings for the building, erection supervision, training of Indian Engineers in the U.S.S.R., technical documentation for production etc. The detailed project report for the Optical and Ophthalmic Glass Plant is under consideration.

#### CREDIT FOR DRUG PROJECTS

7. An agreement was signed with the Soviet Government on the 29th May, 1959 for cooperation in establishing enterprises for the manufacture of drugs, medicines and surgical instruments in India. Under the Agreement, the Soviet Government will make available a credit of 80 million roubles (about Rs.9.52 crores). The repayment of the credit will be in equal annual instalments within a seven year period, beginning one year after the delivery of complete equipment for all enterprises. The rate of interest is 2.5% per annum. In pursuance of the agreement, a contract has been signed with Messrs. Technoexport of Moscow on the 5th September, 1959 to render technical assistance in selecting construction sites and collecting initial data necessary for designing these projects.

#### 1500 MILLION ROUBLES CREDIT

8. In May, 1959 the Soviet Union made an initial offer of a fresh credit of 1500 million roubles (about Rs.178.58 crores) to be utilised towards the implementation of the Third Year Plan and a formal agreement was signed by the two Governments on the 12th September, 1959. The projects for which the credit is to be used will be settled by mutual agreement between the Government of India and the Soviet Government. The credit bears interest at the rate of 2.5% per annum and is payable within 12 years in equal annual instalments. The first instalment for repayment of the credit is payable one year after the completion of deliveries of equipment etc. for each corresponding project.

#### CREDIT FOR THE OIL REFINERY AT BARAUNI

9. An Agreement was signed with the Soviet Government on the 28th September, 1959, for the establishment of an oil refinery at Barauni. The Soviet Government have agreed to allow a credit of 100 million roubles (Rs.11.90 crores). In case this amount proves to be insufficient for meeting the cost of materials, equipment and technical services to be provided under this agreement, it has been agreed to extend the credit upto another 50 million roubles to be drawn from the credit of 1500 million roubles referred to above. In addition, the Soviet Government have agreed to supply equipment and materials etc. required for the manufacture of lubricants, should the Government of India decide to include facilities for this purpose in Barauni refinery. The extra foreign exchange costs involved may also have to be drawn from the credit of 1500 roubles. The credit of 100 million roubles carries interest @ 2.5% and is repayable in twelve years in equal annual instalments. The first instalment for the repayment of the credit is to be paid one year after the completion of deliveries of equipment, steel structurals and materials required for putting the oil refinery into operation.

#### AGRICULTURAL MACHINERY

10. The Central Mechanised Farm, Suratgarh set up in August, 1956, with the help of the agricultural machinery and equipment valued at about Rs.76 lakhs received as a gift from the U.S.S.R. continued to make steady progress during the year 1958-59. Nearly 75% of the machinery has been brought into use in connection with the cultivation of 2,894 acres in Kharif 1958 and 11,232 acres in Rabi, 1958-59. The remaining machinery will be brought into commission very soon. The Kharif harvest of 1958 and Rabi harvest of 1958-59 yielded, 1,47,128 Mds. of food-grains and oil seeds etc.

11. The Government of U.S.S.R. have offered to supply as a further gift, workshop equipment and tools of the value of Rs.11.00 lakhs (approximately). Their offer has been accepted and the workshop equipment is expected to arrive in India in two lots, one towards the end of December 1959 and the other early in 1960. The Government of U.S.S.R. have also agreed to send at their cost a team of engineering experts not exceeding six to help the Farm in the erection of a workshop and other allied matters.

#### INDIAN INSTITUTE OF TECHNOLOGY, BOMBAY

12. The Indo-Soviet Agreement signed in Moscow on the 12th December, 1958 provides for :-

- (i) Free gift of equipment worth 3 million roubles (about Rs.36 lakhs) by the Soviet Government to the Indian Institute of Technology, Bombay.
- (ii) Training of 50 Indian specialists in Engineering and Technology in U.S.S.R. at the expense of the Soviet Government.
- (iii) Deputation of Soviet professors and teachers in specified fields. Their number, other conditions and periods are to be agreed upon by the authorised Indian and Soviet organisations.
- (iv) Securing at the expense of the Soviet Government, translation into English language of Soviet text books in certain field of knowledge for higher educational establishments with the object of subsequent publication in India by organisations designated by the Government of India.

13. The first consignment of equipment, the value of which is not yet known has been received by the Institute.

14. The Government of India are arranging to send the first batch of 15 Indian specialists for training to U.S.S.R. It is expected that the trainees would be sent by the end of November, 1959.

15. The Government of India are negotiating with the Soviet Government in regard to the apportionment of financial liability in respect of the Soviet professors and teachers to be sent to India.

16. The Institute started functioning in July, 1958 and completed its first academic session this year.

#### ASSISTANCE FROM CZECHOSLOVAKIA

An agreement for economic collaboration between the Government of India and the Government of Czechoslovak Republic was signed on the 24th November, 1959. According to the terms of the agreement, Czechoslovakia will make available to India a credit upto Rs.23.1 crores to defray the FOB value of machinery and equipment for the following plants to be established in India :-

(a) Third stage of Foundry Forge Plant; (b) Heavy Machine Tools Building Plant; (c) Heavy Electrical Plant; (d) Such other industrial projects as may be agreed upon between both the Governments.

2. The credit will bear an interest of 2½% per annum and a separate credit account will be opened for each of the plants. Interest will be payable half yearly on the amount outstanding in each account on the 30th June and 31st December each year. The credit will be repayable in eight equal yearly instalments commencing one year after the presentation of the final invoice in respect of the last delivery of equipment for each plant.

3. Repayment of the credit and payment of the interest accrued thereon shall be credited to a separate account styled as the Indo-Czechoslovak Credit Repayment Account to be opened by the Reserve Bank of India in the name of the State Bank of Czechoslovakia. The amount in this account will be used by the Czechoslovak Foreign Trade Corporations for the purchase of goods in India and the unutilised balances, if any, will be converted into free pounds sterling in accordance with such understanding as may be reached in this behalf.

4. The Czechoslovak Government have also offered further aid valued at Rs.6 million for the supply of equipment for a technological institute in India and providing the services of experts for this purpose. The offer also covers the training of Indian technicians in Czechoslovak industrial plants and scientific institutes.

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### THREE STEEL PLANTS UNDER PUBLIC SECTOR

(We have come to know that the estimates committee of the second (present) Lok Sabha could not get some data relating to some financial aspects of Hindusthan Steel Ltd. In fact, in its report (33rd.) on the three projects, it has some harsh words.

The statistical comparison of the three projects we give below may seem to some to be an intelligent guess work, but others may have reason to believe that these are known from sources authoritative - Editors).

Our findings are :

(1) The difference in the annual value of output of these three projects is meagre.

<u>Name of the projects</u>	<u>Ex-ante annual value of output</u>
(a) Bhillai ...	48.5 crores
(b) Rourkella ...	49.3 "
(c) Durgapur ...	50.9 "

(2) The capital gross output ratio are found to be as follows :

(a) Bhillai ... 3.7	(b) Rourkella ... 5.9
(c) Durgapur ... 3.2	

(3) The ratio foreign-exchange requirement to annual value of output is found to be different.

(a) Bhillai ... 1.9	(b) Durgapur ... 1.8
(c) Rourkella ... 3.1	

(4) The import-content is found to be 60% for Bhillai, 67% for Durgapur and 72% for Rourkella.

(5) If the capital cost of Bhillai plant is taken as the index ( = 100) the capital costs of Durgapur and Rourkella Plants work out to be 118 and 135 respectively.

Now the question may come up,

Why is the difference in the cost structures so much, though the annual value of output works out to be almost the same ?

There is every reason to suppose that,

- (a) the capital goods have been supplied at different efficiency prices.
- (b) To give separate contracts by calling tenders is not profitable to a negotiated package deal with a socialist country, such as, Soviet Union.

In any case, this supports our view to ask for more aid from socialist countries, if the aid is found be unavoidable.

### WHAT ABOUT THE ENCROACHMENT OF WAGES TO SURPLUS VALUE TODAY IN INDIA?

We think that the major aim of Trade Union Movement in a capitalistic economy is to increase the encroachment of labour's share to surplus value. But there operates in Congress Socialism some strong resistance mechanism to any enhancement of labour's relative share in growing output even under a lot of labour legislations like the Industrial Disputes Act etc. This may be inferred from the following table, the data of which has been compiled from the Governmental report on "Share of wages in factory output".

	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>
Total Factory Income (in crores)	550	690	700	720	760
Total wage bill for labour (in crores)	232	247	257	249	249
Total Profit (Crores)	318	443	443	481	511
% of total wage bill to total fcty. income	42	36	37	34	33
% of total profit to total income	58	64	63	66	67

From the above table it is found that

(1) Within five years from 1950 to '54, the rate of change of the ratio of labour's share to factory income has been - 11.9%, whereas the rate of change of the ratio of profit to total factory income has been + 15.5%.

(2) Within these five years, the rate of change of profit and the rate of change of wage bill found to 60.9% and 3.01% respectively, whereas the rate of change of factory income works out to be 40%. So, to sum up, \*\* This period from 1950 to 1954 is not marked by any positive encroachment of wages to surplus value.

But a rigid ceiling on any encroachment of wages upon surplus value is not nothing new in a capitalistic economy. The share of wages in (home-produced) national income in U.K. was 38.6% in 1870, 36.6% in 1913, 38.3% in 1939 and 41.9% in 1950. (Source - Brown & Hart in 'Economic Journal, June 1952).

But when the Congress political bosses along with 'labourite' Sri Nehru in a chorus to suggest that they are destined to work for socialism, they only try to stir-up some confusion. But the trade unionists should not be mixed by these vociferous nonsense, but should organise more and more to encroach more and more upon surplus value.

\*\* N.B. This is the first part of the paper prepared by our research group on "Wages and National Income in India".

### REAL WAGES OF WORKING CLASS IN INDIA IN RECENT YEARS

The bourgeois propaganda is in full swing to bring confusion, by stating that the objective of reduction of inequality of income and wealth is beyond their venture on planning. A few months ago, the 'Eastern Economist' - the organ of the Birla Group - has made the use of the tool of what is styled as 'Lorenz Curve' to show that there has a positive reduction of income and wealth.

But contrary to this set of ideas, we hear from Prof. Mahalanobis that real wages of workers have not appreciably changed. In the Indian Labour Economists' Conference recently held in Madras, Prof. is reported to remark that although there has been a lot of labour legislations in recent years in the country, yet the real wages of workers have not been appreciably gainful. (See 'Hindusthan Standard', 3rd. January, 1959).

He has also shown through statistical observation that the real wages of workers have gained only 3 or 4 points, if the real wage of workers in 1939 be taken as the index. But on the other hand, there has been much expansion in our national economy. And, our labour policy, administration and legislations have only followed the model of the developed capitalist countries. Prof. Mahalanobis is also reported to remark that the condition of the country has not been taken into consideration, while framing these legislations. The result is, real wage has always lagged behind increase in per capita income or consumption. (See 'Economic' Weekly, 16th January 1960).

So, it is seen from Prof. Mahalanobis's speech - the rate of change of real wage is much lower than the rate of change of national income. — The present labour legislations are not sufficient to bring relief to labour — the model of labour laws of capitalist countries is followed suit perhaps with greater care under congress Socialism. What an anomaly !

We give below a Table to see the correlation between the cost of living and the real wage of workers.

<u>Year</u>	<u>All India consumption Price Index (1939 =100)</u>	<u>Real wage index (1939 =100)</u>
1950	371	90.1
1951	387	92.2
1952	379	101.8
1953	385	99.9
1954	371	102.7

But the price is sky-rocketting since then.

From Reserve Bank of India Bulletin, December 1959, we see that if the price-level of 1949 be taken as 100, the consumption price index is found to be 126 in October 1959. So, by changing the index, i.e., by taking the 1939 consumption price level as 100, the corresponding price level in October 1959 is found be 464. Or, in other words, — the consumption price index has increased fourfold since 1939.

And we hear from Prof. Moholanobis that the real wage of workers is only 104 or 105, if the index be taken as 1939-level. But the profit-suckers have accelerated their profit. This is evident from the following table - (1950 = 100)

Year	Gross Profit
1951	128.7
1952	99.0
1953	109.6
1954	125.1
1955	150.8
1956	165.0

(Source - 'Eastern Economist', Quarterly Bulletin, November 1959).

N. B. The Central Labour Minister, Shri Nanda, in his speech in 'Lok Sabha' on 4th April, 1959, had also admitted that real wages of workers have increased by only 5% since 1939, whereas industrial production has increased by 35% from 1950-1956.

### / LIFE INSURANCE CORPORATION /

The Life Insurance Corporation was set-up in September 1956, following the nationalisation of life insurance business in the country in January 1956. The nationalisation meant taking over 243 private Companies' transaction of life business with more than 26,000 employees and field workers and some 2,000,000 agents. The Corporation took over some 50 lakh policies covering an aggregate insurance of about Rs.1,250 crores and assets of more than Rs.400 crores.

Between January 20, and September 1, 1956, the nationalised industry functioned under the private management, subject to supervision of Custodians appointed by Government. The Life Insurance Corporation of India consists of 15 Directors.

The following TABLE gives comparative figures of completed NEW BUSINESS for the years 1953 to 1957 :-

YEAR	IN INDIA		OUTSIDE INDIA	
	No. of Policies	Sum assured (Crores of Rs.)	No. of Policies	Sum assured (Crores of Rs.)
1953	5,74,749	156.26	30,441	14.66
1954	7,40,093	237.60	32,682	17.65
1955	7,96,030	240.51	35,461	20.33
1956	5,49,401	187.69	17,956	12.59
1957	8,10,738	277.67	5,005	5.40

The Corporation wrote a record life business of Rs.276 crores in 1957 against the private industry's record of Rs.238 crores in 1955.

#### TOTAL BUSINESS IN FORCE

The total business in force as on 31st December 1957 was Rs.1,474 crores under 56.86 lakh policies out of which Rs.1,375 crores under 54.17 lakh policies was the business in India and Rs.99 crores under 2.69 lakh policies was the business outside India. The following table gives figures of the business in force as on the 31st December for the years 1952 to 1957 :-

YEARS	IN INDIA		OUTSIDE INDIA		TOTAL	
	No. of Policies (in lakhs)	Sum assured & bonuses (in crores.)	No. of Policies (in lakhs)	Sum assured & bonuses (in crores.)	No. of Policies (in lakhs)	Sum assured & bonuses (in crores.)
1952	40.17	925	2.66	70	42.83	995
1953	41.67	970	2.72	77	44.39	1,047
1954	48.05	1,091	2.77	86	47.82	1,177
1955	45.16	1,128	2.76	92	47.92	1,220
1956	(Please see note below)					
1957	54.17	1,375	2.69	99	56.86	1,474

NOTE : The figures relating to total business in force are compiled at the close of an accounting period. As it was decided that the 1st accounting period of the Corporation should cover the 16 months from 1.9.56 to 31.12.57, the Corporation did not compile the figures in respect of total business in force on 31st December 1956.



TABLE SHOWING AID RECEIVED FROM VARIOUS SOURCES

(Figures in lakhs of Rupees)

SOURCE	Authorisations upto 31.3.1956.		Estimated utilisation to end of 31.3.1956.		Balance of unutilised aid as at the end of 31.3.1956		Aid authorised from 1.4.1956 to 31.3.1959.		Total available utilisation during the 2nd plan		Estimated utilisation between 1.4.56 to 31.3.1959		Balance available as at the end of 31.3.59		Authorisations after 1.4.59.		Total authorisations from inception to 30.11.1959.	
	Loan	Grant	Loan	Grant	Loan	Grant	Loan	Grant	Loan	Grant	Loan	Grant	Loan	Grant	Loan	Grant	Loan	Grant
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
<b>I. U.S.A.</b>																		
Wheat loan	9031	-	9031	-	-	-	-	-	-	-	-	-	-	-	-	-	9031	-
TCA Programme	3928	9075	229	4200	3699	4875	2263	3594	5962	8469	4063	5848	1899	2621	-	93	6191	12762*
P.L. 480	-	-	-	-	-	-	18540	4357	18540	4357	500	-	18040	4357	4900	4900	23440	9257**
Development Loan Fund							8333		8333		687		7646		952		9285	
Presidents Asian Economic Development Fund							952		952				952				952	
U.S. Bank credit for A.I.I. Exim Bank							533		533				533				533	
							7143		7143		115		7028				7143	
																	<u>56575</u>	<u>21019</u>
<b>II. U.S.S.R.</b>																		
Bhilai Steel Industrial Projects	6307				6307				6307		5202		1105				6307	
Drugs Project							5950		5950		11		5939				5950	
Oil Refinery Barauni															949		949	
Grants for Machinery															1190		1190	
Credits for 3rd plan								122		122		76		46			17858	122
																	<u>17858</u>	<u>122</u>
																	<u>32254</u>	<u>122</u>
<b>III. U.K.</b>																		
Under Colombo Plan	39		3		36			8		44		31		13				47
ECGD Credit for Durgapur							2000		2000		2000						2000	
Lazard Credit for "							1533		1533		933		600				1533	
II ECGD Credit for Capital goods							3800		3800		507		3293				3800	
III -ditto-Oil Pipe Line															400		400	
IV -ditto- November 1959															2533		2533	
																	<u>10266</u>	<u>47</u>

\* This includes the amount of Rs.32.33 crores being the rupee equivalent of the dollar value of agricultural commodities imported under P.L.665. Out of this a sum of Rs.18.99 crores is to be received as a part of the Three Development Assistance Loans and the rest in the form of grants for agreed projects. This excludes amounts obligated towards U.S. Technicians, Indian Trainees and miscellaneous.

\*\* This excludes Cooley funds and amounts retained by U.S. Government for their own purposes.

TABLE SHOWING AID

(Figures in lakhs of Rupees)

SOURCE	Authorisations upto 31.3.1956		Estimated utilisation to end of 31.3.1956.		Balance of unutilised aid as at the end of 31.3.1956.		Aid authorised from 1.4.1956 to 31.3.1959.		Total available utilisation during		Estimated utilisation between 1.4.56 to 31.3.1959		Balance available as at the end of 31.3.59		Authorisations after 1.4.59.		Total authorisations from inception to 30.11.59.	
	Loan	Grant	Loan	Grant	Loan	Grant	Loan	Grant	Loan	Grant	Loan	Grant	Loan	Grant	Loan	Grant	Loan	Grant
Canada	-	3234	-	1970	-	1264	1571	3572	1571	4836	1571	3561	-	2275	-	333	1571	7139
Australia		1108	-	520	-	588		34		622		615		7			-	1142
New Zealand		172		33		139		151		290		239		51				323
WEST GERMANY																		
Rourkela								7483		7483		4214		3269			7483	-
Other Credits								1904		1904		449		1455			1904	-
Okhla & I.I.T. Madras									209		209			209			-	209
																	9387	209
JAPAN								2761		2761		25		2736			2761	-
NORWAY		66		66					100		100		100				-	166
RUMANIA								530		530				530			530	-
CZECHOSLOVAKIA															2310		2310	-
I.B.R.D.:																		
PUBLIC	3200		2900		300		11838		12138		9268		2870		3570		18608	-
PRIVATE	2570		480		2090		6538		8628		6978		1650		476		9584	-
																	28192	-
FORD FOUNDATION	561		226		335		406		741		272		469		30		-	997
<b>TOTAL</b>	<b>25036</b>	<b>14255</b>	<b>12640</b>	<b>7018</b>	<b>12396</b>	<b>7237</b>	<b>83672</b>	<b>12553</b>	<b>96068</b>	<b>19790</b>	<b>36523</b>	<b>9742</b>	<b>59545</b>	<b>10048</b>	<b>35138</b>	<b>5356</b>	<b>143846</b>	<b>32164</b>
Third Country Currency Assistance from U.S.A.			Currency		Commodity		Allocations in \$ millions		Disbursements to end of March, 1959		Further authorisation after 1.4.1959							
			Lira		Fertilizers		2.00		\$ 1.64 million									
			Franc		-do-		0.55		Nil		\$ 2.1 million							
			Yen		-do-		0.87		\$ 0.07 million									
			Yen		Tubewell		0.58		Nil									
					<b>TOTAL</b>		<b>4.00</b>		<b>\$ 1.71 million</b>		<b>\$ 2.1 million</b>							

This statement excludes :- i) Assistance received in form of suppliers credit e.g., from Japan, France and Rumania.  
 ii) Rockefeller Foundation. iii) Gift shipments from private voluntary agencies in U.S.A.  
 iv) Assistance under title II and III of P.I. 480.

(SOURCE : MINISTRY OF FINANCE, DEPARTMENT OF ECONOMIC AFFAIRS, GOVT. OF INDIA.)

New 356

Dear Com. Dange

Alongside please find  
an article that appeared  
in 'Trud' on the latest  
labour struggles in W. Germany  
Some time back, I had sent  
you, similar materials  
via with Com. Elias. I  
shall continue to send now  
and then similar materials  
as and when they appear.

Please drop a line sometimes  
whether they are of any use.

Greetings to all

Chandra  

---

2/II '60

Acc with  
4/10  
2/12

INTERNATIONAL LABOUR MOVEMENT BEATING BACK THE  
ATTACKS OF CAPITAL AND FASCISM

... The movement for higher wages is gaining momentum throughout the whole of Western Germany. Probably, for the first time since the war it has achieved such a mass scale. Many trade unions have lately cancel wage agreements. Municipal workers, builders, railway and postal workers are demanding 10 to 15 per cent rise in wages. In these industries, some 4.4 million workers and office employees are insisting on their demands for better conditions and wages. A few days ago more than a million civil servants came out in demand of a 12 per cent pay rise. Miners, agricultural workers and workers in other industries are joining the struggle for higher living standards. All in all, some 10 million workers have entered the battle.

The intensity and scope of the conflict on the labour front is not accidental. Last year, for many months the question of wages was deadlocked. The leaders of the West-German trade unions displayed "moderation" and opposed the actions of the working people in the hope of a godsend from the monopolies who had promised to reduce prices. But capitalist reality has shattered these illusions and once again ridiculed the preachers of social "partnership." Actually the monopolies made use of the breathing spell provided by the trade union bosses in order to organise further robbery of the working people.

Last autumn prices began to climb everywhere. In the last two months food prices jumped by an average of seven per cent. The price of potatoes--a staple food in the population's ration--has increased by 50 per cent. Meat, butter, vegetables, and practically all other products and consumer goods have gone up. According to the trade union economic institute, in only the last two or three months of 1959, the West-German population was robbed of some 1,000 million marks as a result of price increases....

Not only the capitalists' attack on real wages is aggravating social contradictions. Exploitation is increasing as well and the intensification of labour has mounted considerably. In industries hit by crisis, workers are being laid off. The army of unemployed has topped the half-million mark. The threat of unemployment remains the scourge of the working people. At factories, mills, mines and construction developments the bosses time and again resort to overt club rule, deal summarily with discontented active workers and suppress trade-union activities.

Millions of workers and employees are rising to the struggle to beat back the attack of the monopolies on their living standards. The trade union leaders have been forced, willy-nilly, to sound the alarm. They are striving to create an impression of their concern for the needs of the masses. The tension in relations between labour and capital finds expression in brief but fierce clashes. Thousands of municipal workers went on strike recently in the Saar in protest against

speculation prices. Mass demonstrations of indignant workers were held in Mainz and several other cities. Threatened with strikes, the owners agreed to meet the wage demands of the textile and chemical workers of North Rhine-Westphalia.....

It is often difficult to judge of the scope of the struggle because the bourgeois press hushes up so-called wildcat strikes, demonstrations and other manifestations of the working people carried out without the consent and contrary to the trade union leadership. It is known, however, that "wildcat" strikes have recently involved tens of thousands of workers at only a handful of factories. Strikes took place, in particular, at steel mills in Gelsenkirchen and Wetzlar, the farm machinery factory in Mannheim, the Volkswagen Works, the car body works in Osnabrück and many other factories.

The more class conscious and active workers are striving to use new forms of action in the struggle against exploitation and the club rule of the monopolies. At trade union meetings and conferences the demand is being loudly voiced for a resolute stand in defence of class-interests. Representatives of tens of thousands of metal workers in Mannheim recently called for a new workers' march to Bonn.

The working class of Western Germany is becoming more and more aware of the fact that the intensification of exploitation and new hardships are a direct consequence of the rebirth of militarism and the arms drive. This is openly expressed at workers' meetings and trade union conferences.

"Surely it is clear why the government demands more money from us for medical service!" exclaimed an elderly metal worker of the Ruhr speaking at the conference of the West-German trade unions in Mülheim. "They want to pump hundreds of millions out of us and spend them on nuclear armaments."

The WGTU leaders are trying to prevent the trade unions from participation in the settlement of the most urgent political problems. But they have to face the growing pressure of the working people who insist that the vast power of the organised working-class movement be used for the struggle against atomic armament and the threat of fascism, for disarmament and the liquidation of the "cold war."

Two significant events took place in the West-German trade union movement shortly before the New Year: the WGTU conference of North Rhine - Westphalia was held in the Ruhr city of Mülheim. The conference represented more than two million, or a third of the organised labour. This fact alone imparted to it the significance of a WGTU "minor conference."

Saturday, Jan. 30, 1960

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Later a conference of the trade union of Bavaria uniting more than 900,000 working people was held in Munich. The common feature of both conferences representing half of the membership of the WGTU was the openly expressed determination of the proletariat to take an active part in the struggle for peace and against the armaments drive. These feelings were reflected in the resolutions of local branches and the speeches of delegates. The members of the trade union of Düsseldorf declared that they welcomed and supported "all efforts leading to relaxation and any step aimed at achieving universal and complete controlled disarmament." The delegates of the conferences spoke against the insane policy of the atomic armament of the Bundeswehr.

In their unanimously adopted resolution the delegates of the conference of the trade union of Bavaria called upon all people of good will to make an effective contribution to the struggle against atomic death and recommended that each trade union member should actively participate in this mass movement.

The WGTU conference of Baden-Württemberg also called for termination of nuclear tests and a peaceful settlement of international issues.

The events of recent weeks, the unbridled fascist provocations stirred up all over West Germany filled the working people with even greater anxiety for their country's future, and at the Bonn policy. The protest expressed by the WGTU leadership concerning the outrages of the neo-nazis does not satisfy the trade union rank-and-file. They demand the trade unions offer a decisive and effective rebuff to the forces of reaction, militarism and nascent fascism.

The call to increase vigilance and to take actions against the fascist threat and militarisation of the country once again resounds in the trade union local branches.

The conscious and active forces of the West-German working-class movement call on the trade unions to use all their efforts and influence to channel the Bonn policy toward peace and the liquidation of the cold war.

The West-German workers regard the settlement of these basic tasks as the key to successful defence of the vital interests of the working class and all working people of West Germany.

THE END

Article in TIMES, London, July 22, 1959

BATTLE FOR INDIA'S TRADE UNIONS

by Victor Feather

Indian trade unions have their strength in the basic industries on which India's development plans depend. Thus, though their members are only a small fraction when it comes to political elections, they are capable of exerting considerable political as well as industrial influence. Most trade unions are modelled on the British pattern but the member usually pays about six rupees a year, which is relatively twice what trade unionists pay here. There are no provident benefits.

The trade union movement has four national centres. The strongest is the Indian National Trade Union Congress with a membership of 1,400,000. It is strong in the textiles industry, on plantations, in jute, steel, cement, sugar and motor transport, and has good unions in the docks and railways and among seamen. It was formed in 1945, and drew its leadership from Ahmedabad, where the Textile Labour Association, formed in 1923, is a powerful industrial body with its 95,000 members, and is also known for its great social work. There is a workers' bank in the city and a cooperative society, both formed by the union. A maternity and general hospital also came from the union.

The INTUC leadership is shrewd and experienced and its training of young leaders follows Gandhian lines. All the leaders except four or five are "outsiders". Many were former social science graduates, or social workers. The same is true of the other national centres as well. The main reason for this is that there are few workers who can read and write even in their vernacular language. The number of those who can write English and Hindi is infinitesimal. A trade union leader must be able to read, write, and

speaking even legal English, for there is a great deal of law - too much, perhaps, now - relating to collective bargaining. These laws are printed in English and Hindi. Local union officers and factory representatives are drawn from the workers themselves.

#### AUSTERE REALISTS

The INTUC leaders have dedicated themselves to the cause of trade unionism as a means of raising the level of Indian life and culture. They are thoughtful men, living austere lives, setting an example of self-sacrifice: they are enthusiasts and realists, not cranks. The leaders of the other democratic centre, Hind Mazdoor Sabha (HMS) are men and women of similar calibre. It may be that they proclaim their socialism more loudly than INTUC and that their Gandhian philosophy is less marked.

HMS has an affiliated membership of 4,07,000, although some of its supporters say that it is now nearly 6,00,000 strong. Its main stronghold is Bombay, where it has the support of a dock-workers' union which is as efficient as many of the dock-workers' unions in Europe.

~~Although~~ Although the aims and objects of HMS and INTUC are similar, the possibility of amalgamation seems remote. HMS alleges that INTUC is under the control of the Government and the Congress Party. The latter denies this and asserts that it receives no subsidies from party or Government. Indeed, HMS does not challenge this, but explains that INTUC is "under the patronage" of the Government and is given privileged treatment. INTUC's answer is that, on the contrary, it has found itself penalised in some degree because it agrees with the Government's aims and policy, and that because it acts in a reasonable and restrained way, Ministers take advantage of this and bend over backwards to give the HMS and the Communist AITUC (All-India Trades Union Congress) representation to a greater extent than their membership warrants.



### ATTACK ON STEEL

The Communist Party trade union front, the AITUC, claims a membership equal to that of INTUC. But nobody believes that. Its membership may be as high as 600,000 or lower than 400,000. "Once a member, always on the register" seems to be true of AITUC, whose unions sometimes are satisfied with a membership contribution of one rupee a year.

The AITUC probably in accordance with a Soviet directive, has concentrated its recent efforts on getting organised in the new key industries, particularly those relating to defence and communications. The terrific onslaught by Communists, imported from Calcutta and West Bengal, on the INTUC union at the Tata steel works at Jamshedpur last year was a ruthlessly engineered attempt to capture the union, which could then have been used as a bridgehead to extend, develop, and control, for political purposes, the whole of the newly expanding steel industry in West Bengal and Bihar. The struggle at Jamshedpur has been won by the INTUC union, but similar efforts will be made by the AITUC at the new plants still under construction.

In some areas the Communist congress has managed to get itself recognised in the engineering and electrical industries. Both of the others, having none of the monolithic control exercised by the AITUC, may have been slower to the punch in these new industries, but both are aware of the dangers of Communist advance.

### NAIVE ATTITUDES

The decisions and attitudes of some employers, on the other hand, have been unbelievably naive. There are employers who prefer to deal with the AITUC because "they control their members better" and "one can negotiate a quicker settlement". This really means that the Communists are ready enough to accept a lower amount and thus make a quicker bargain than the other two. If these two have put forward what they consider to be a just claim for an increase of 10 rupees, and have been offered two, they then still try to negotiate nearer to their claim or go to arbitration. The Communists settle

quickly for the two rupees as their primary aim is to keep control of the workers.

In other cases, even where employers do not encourage the AITUC in this way, they force the INTUC and HMS unions through long drawn-out negotiations and then to arbitration rather than establish a quick, reasonable settlement by bona fide collective bargaining. Under Indian labour law arbitration is part of the judicial procedure; therefore an award by a judge can be subject of an appeal to the High Court and thence to the Supreme Court; the length of time taken before finality is reached can be appalling, two years being common.

There is a fourth trade union centre, the United Trades Union Congress with 40,000-50,000 members associated with the Revolutionary Socialist Party, whose influence is limited to some plantations in Bengal and Kerala.

These four national centres, however, are not the full extent of trade union organisation. There are many unattached unions. Trade union membership among Civil servants and white-collar workers in banks and the large commercial houses is patchy and can be increased enormously. The three main centres are making efforts to attract affiliations and membership, but it seems to be resolving itself into a contest between the INTUC and AITUC.

#### RIGID WAGE POLICY

The danger is that among public employees there is much dissatisfaction with the Government. The Civil servants are the Government's employees and many are aggrieved, therefore, by the Government's wage restraint policy. The small group of Communists in the House provide the main opposition to the Government. Hence, some Civil servants are inclined to assume that an INTUC union will not put up a real fight for wage increases but that the Communists will. The INTUC has secured improved living standards for workers and peasants on the lower levels. Many middle-class commercial employees, however, are resentful that their standards have not improved at the same rate.

It may be that the short-term interests of the nation have got to be examined now in order to preserve the long-term aims. The general view of many observers is that the economic situation has reached a point where trade union organisation is in the balance. It will expand: but it can expand in the direction of AITUC unless there is some relaxation of the present too rigid restraint.

This does not mean that the restraint has been unnecessary, or, from an economic point of view, has extended over too long a period. Indeed if the latter were the only criterion, there is no doubt that, until the completion of India's Second Five-year Plan in two years' time, rigorous restraint would still be essential. Some relaxation now, however, will not be fatal. If there is no relaxation it will almost certainly put democratic trade unionism in a situation of great difficulty and that could not possibly be helpful to India, or indeed to Asia in general.

## ECONOMIC BALANCE BETWEEN WEST AND EAST

### West's Duty to Uncommitted Free World

By Dr Thomas Balogh  
Fellow of Balliol,  
OXFORD

As 1959 draws to its close, the unison of congratulations among the economic leaders of the West, especially the international and national banking leaders, meeting at New Delhi seems unbroken by qualification or opposition. It, nevertheless, seems in queer contrast to reality.

True we have much to be thankful for. The acute crises of the pound sterling and the French franc of last year have been overcome. Despite the sharpest of post-war depressions, no acute dollar shortage, feared by all competent observers, has occurred in Europe. Indeed, in recent months, it looked as if the dollar might come under suspicion and attack. Contrary to all previous experience American imports remained remarkably stable, to some extent because of the newly acquired taste for small European cars. American exports on the contrary, fell rapidly despite the mounting excess productive capacity in America. Fears of inflation coincided with acute unemployment of capital and labour. Last, but not least, the boom on the Stock Exchange encouraged people in Europe to withdraw capital from the United States. Moreover, the rebound from the acute phase of the American depression caused mainly by the rapidly running down stocks has been remarkable and it still seems to gather force. Capital investment, despite large excess capacity, continues at a high level. It all could have turned out much worse.

#### Cost of Confidence: Stagnation

But, if the gold reserves and balance of payments of Western Europe look much better and confidence has returned, this alone is insufficient grounds for congratulation or complacency. The British army was saved at Dunkirk but the occasion was not a famous victory. ~~It~~ It was the end of a disastrous campaign and an hair-breath escape from final catastrophe. So the present relative calm on the foreign ex-

change markets has been attained at a very heavy cost, especially to the most vulnerable areas of the non-Soviet orbit.

In highly developed rich countries of the "Western" world, economic progress up till 1955 was encouraging. Even in Britain and the United States it was more than twice as fast as before the war. In Britain, one would have to go back to the nineteenth century to find comparably favourable figures. The expansion in France and Germany, as well as Japan was far greater, even after the first flush of reconditioning of war-devastated areas has been finished. But even they hardly matched the expansion in the Communist countries.

The expansion in the less developed non-communist areas was also impressive. The fundamental change which had taken place since before the war in the relation between ~~xxxxxxxx~~ sovereign countries was an important element in this favourable turn. The U.S. and, to a lesser extent, Britain and France directly and through international institutions put at the disposal of wide areas of the world in less fortunate circumstance not merely loans and direct investments (that after all, had happened on a relatively greater scale before the two wars), but also free contributions in capital resources and technical knowledge. The United Nations Relief and Rehabilitation Administration of the more immediate ~~xxxxxxxx~~ post-war period was followed by Marshall Aid and the Point Four Programme in its various guises in the United States; by the Colombo Plan and the Colonial ~~xxxxxxxx~~ Development and Welfare Grants in Britain, and by extended technical aid organised ~~xx~~ in the United Nations.

Moreover, the war freed poorer areas of their heavy foreign debt and permitted them to accumulate sizable liquid balances. This lifted the heavy pressure of repayment from a very large part of Africa and Asia, enabling them to begin with development programmes. The consumption of their own products increased and this ~~xxxxxxxxxxxx~~ ~~xxxxxx~~

oincrease in their standard of life had further important consequences. It accentuated the relative scarcity of the primary products food and raw materials on the export ~~on~~ of which they had to rely to pay for the manufactures they needed. Thus, immediately after the war, their terms of trade, the relationship between the price of the primary produce they exported and the manufactures which they imported, considerably improved. This further increased their standard of living and there was hope that ~~xx~~ this favourable trend would continue and would be the basis of a continued self-sustaining capital investment and growth.

#### Effect of Political Freedom

These hopes were supported by the achievement of independence by many countries in much the same wide area, countries, which had been under foreign rule for centuries past. And independence at first seemed to give solid basis for these hopes. Though they lost the services of many highly qualified administrators (they retained some and obtained some more through the international agencies), their economic ~~xxxxxxx~~ development was not merely not retarded, it was accelerated. A fund of unsuspected energies was freed by the liberation from foreign domination. Moreover, the new national administrations were not merely convinced that conscious action was needed to lift their countries above the primitive poverty standard in which they had suffered since antiquity. They were under powerful popular pressure in contrast to the pre-war colonial regimes whose mentality reflected the prevalent laissez-faire attitude of the ~~xxxxxxx~~ governing classes in the colonial powers - in sharp contrast to the earlier regimes of colonial administrators who pursued a forward policy of economic and technical advance in the nineteenth century.

Thus, the new national administration established planning organisations and were not deterred by dogmatic scruples from State intervention where it seemed to be needed. The success of the first Five -Year Plan in India, the tremendous forward bound of Turkey, achieved in the early 1950s, are examples of this trend. It could be hoped that the ~~inner~~ inter-war difficulties, which meant stagnation or much reduced progress in the highly developed areas, combined with acute distress in the/poorer areas, were at last over. A new era seemed to have dawned. One could hope that the Communist economic challenge, which was bound to have great appeal to the poor in a stagnant world, would and could be countered.

#### DISAPPOINTED HOPES

All this has changed in the last three years. Growth has practically ceased even in highly developed Western countries. A severe unemployment of capital and of labour has appeared again, even though not on the/pre-war scale. In the less developed areas of the non-Soviet bloc much the same difficulties seem to be encountered as before the war. The fall in the proceeds of their exports has much more than offset the diminished flow of grants and loans.

What were the reasons for this dramatic reversal of the favourable trend? The dogmatic approach to economic policy of the ~~Conservative~~ Conservative Parties in England and America led to an almost total discarding of all direct controls over economic life which permitted subtle and detailed direction of production. This economic disarmament in the face of an increasingly complex problem has had fateful consequences. When the continued expansion and full employment led to a marked increase in wage costs and also of prices, the authorities could not deal with the problem.

They were forced to fall back on severe monetary restriction despite the ominous lessons of the inter-war period. The only way of countering the broadening and accelerating sweep of cost inflation was the haphazard and rather unsubtle weapon of drastic credit rationing and dear money.

GROWTH CHECKED

This policy proved quite insufficient to prevent further wage and cost increases. Indeed, in America, the period of highest unemployment coincided with a period of the sharpest increase in the cost of living. Expansion, however, ended. The American figures for production are still well below the 1955m level and the British also show a decline. Expansion in Germany has practically come to a standstill, and only in France is expansion sustained by the large budget deficiency due to the Algerian war. In all highly industrialised countries, moreover, the monetary pressure was rather concentrated on stocks, especially on stocks of raw materials. Consequently, the full force of the monetary policy struck at the producer of primary commodities, especially of agricultural raw materials. The fall in the purchasing power of their exports has been very severe. The dollar value of the exports of all primary producers fell from a quarterly average of \$ 7.61 billion in the first quarter of 1957 to \$7.12 billion or by almost \$500 million per quarter. The fall accelerated in the second quarter of 1958.

Nor was this all. The earlier period of expansion had coincided in a number of countries with a favourable weather cycle. The encouraging increase in food supplies and consumption standards in India in Turkey and in large parts of the Middle East, can, to a considerable degree be accounted for by an exceptionally favourable coincidence of rain and sunshine. Since 1954, the weather in large parts of the world has been inclement: rain fell in the ~~xxx~~ wrong period or not at all. Consequently,



a very severe reduction in production took place at a time when the deflationary policy in the richer areas already proved a great handicap to the prices of the primary producers. The sum total of these policies was an unexpected setback in a number of primary producing countries loss of reserves, loss of employment and income. The change-over to pre-war policies, though it improved the balance of payments of the leading areas in Europe, has reproduced the uneasy stagnation and crisis in the poorer countries of the ~~non~~ non-Soviet orbit.

#### THE SOVIET CHALLENGE

In contrast to this relative or even absolute decline in the non-Communist countries, the situation in the Soviet orbit has shown a remarkable recovery and expansion. The ~~communist~~ communist countries of Eastern Europe had been thrown into violent tumult in 1956 mainly as a result of muddled thinking and muddled planning. The Russians did not use their overwhelming economic power to create a well working and harmoniously balanced economic system in the East of Europe which they dominated.

Among the countries which they had overrun in the last convulsion of the Nazi empire, Czechoslovakia was perhaps the most fortunately situated. It had been an industrial country already before the war; it had a well-balanced economic system based on considerable raw material resources: it had a high standard of education and technical knowledge, and the Germans, during the intense bombing period, had shifted a great deal of industrial capacity into the country, only little of which was lost through the last American air raids. Altogether Czechoslovakia was in an exceptional position. In Hungary and Poland, as well as in Eastern Germany there were areas of advanced industrial development, but they had been shattered as working units during the war, and agriculture was also at a low ebb. All needed careful nursing back into full production. The same was true of Bulgaria and Rumania.

PRESSURE ON SATELLITES

Now it ~~is~~ was quite comprehensible that the Russians, who had suffered losses far beyond the imagination of anyone in the West, would use all their energies to restore their own economic ~~xxxxxxxx~~ ~~xx~~ system first. After all, they had borne the brunt of the war against Germany and it was essential from a Communist point of view, that they should be restored as quickly as possible into working order. What is less comprehensible is that, in their eagerness to obtain supplies under the guise either of reparations or favourable trade agreements, they should exert such pressure on their satellites as would render reconstruction much more difficult and would certainly expose them to furious hatred on the part of the countries which they dominated. What was completely incomprehensible, however, was that, in their planning they did not at any point mobilise their considerable liquid resources in gold to ease the burden on themselves and their allies, and that they did not create a balanced system using fully the advantages of specialisation and mass production.

The sterilisation of the thousands of millions of gold reserves, which have lain idle in Moscow in the ~~xx~~ last 12 years and which could have considerably eased the burden of reconstruction, seems a fantastic sacrifice on the altar of the Marxist belief that money cannot measure truly value unless it embodies value itself. In addition, the Stalinist planners in the post-war period were everywhere ruthlessly and thoughtlessly imitating the Russian industrial example, without having the immense national resources and compulsion over the people which enabled the Russians to carry their plans to a successful ~~xxx~~ fruition. The plains, the woods and mountains of Central Europe are strewn with gigantic structures which could not be completed could not produce at an advantage.

The Western Powers have much to be thankful for.

Nor has the self-imposed impairment of productive power in the Soviet zone ceased completely. If the Stalinist grip has relaxed, this has meant that a number of capital projects were prematurely abandoned and will not for some time benefit the Communist powers. Consumption has increased in the satellite countries and the Soviet Union has been forced even to lend substantial sums to those countries, instead ~~of~~ of being able to exploit their productive capacity.

#### PAST HISTORY

But all this is now past history, and if, as in Poland, the violent reaction against State Planning has now resulted in a return to free markets which will further impair productivity and dissipate the energies of the people in all other countries, the Soviet grip has tightened, and, with the passing of time, the relentless return to forced investment is beginning to show its first fruits. Production in ~~the~~ Czechoslovakia and Hungary is increasing and in Bulgaria, for the first time, a considerable improvement in the standard of life has been ~~ex~~perienced which contrasts not unfavourably with the situation in Yugoslavia, despite the great efforts of the Yugoslavs and the considerable help they have received from the West.

The forward progress of the Soviet industrial economy has continued at an undiminished, if not higher, rate than in previous years. Production in industry has been increasing at over 10 percent. per annum, which contrasts sharply with our own 2 per cent. since 1952 or even Germany's 8½-9 per cent. up to 1957, and with the stagnation here and in the ~~the~~ U.S. since then. There ~~seems~~ seems to have been a considerable, if not as considerable, increase in agricultural output too, as the result of the ruthless concentration of the youth on ploughing up the wastes of Siberia. While the immense backlog in urban investment, and in transport, both of which absorb much capital, will clearly prevent an acceleration of the rate of increase in Soviet productive power,

there is no reason to suppose that it will decline. On the other hand, if the virgin lands will give only fitful return even when the gigantic ~~xx~~ tree shelter stripes stretching across the Asian steppes will have been completed and irrigation has been pushed further, there is as yet no reason to suspect that the Russians will use their ever accumulating industrial productive power to obtain food and agricultural raw materials by selling manufactured goods, though the case of damage they could do to Western economies if they set their minds to obtain the fruits of international division of labour.

#### THE CHINESE "LEAP"

But the really vital change of the last year or so has been the Chinese burst of investment and production. It is this factor which is likely to change the balance of the world, as it has already clearly changed the balance within the Soviet system. The basic principle behind the Chinese industrial and agricultural revolution which has taken place, and still continues, is very simple: it is the direct mobilisation of idle or underemployed manpower for investment, without, initially, permitting any increase in consumption. It is this Columbus egg of development which bids fair to revolutionise the international economic and military situation.

It has always been the opportunity, as well as the course, the underdeveloped areas that they had a vast overpopulation in their rural areas, which could easily be spared, with only slight changes in agricultural production techniques. If this could be mobilised, the basis would be laid for a decisive upsurge in investment, especially in investment in what is called the infra-structure: the public works needed for further improvement in production if standard of life is to be raised. Among these roads, canals, dams, and last but not least afforestation schemes required to stem the devastation by soil erosion, would be most important.

But, however great the opportunity in this latent source of manpower for productive works, no one yet was able to mobilise it because any movement from the rural areas, though it would not result in much of a decrease in agricultural output, would not release any of the food which has hitherto been consumed by the peasants now no longer on the land. Food consumption per head in the rural areas would just rise and the employment in the cities or on public works of the member of the family who left would necessitate the provision of additional food. Thus, the total needs of the country would rise.

#### CRUX OF THE PROBLEM

In the end, the additional demand, as we have seen it recently in India and in other underdeveloped areas, would burst the bounds of the balance of payments and a crisis would be inevitable. This would seemingly justify the misgivings voiced by more conservative members of the Government strongly supported by the heads of the International Banking fraternity. The plans would be cut back. Thus, the hopes which had been prematurely raised would be disappointed, and in all probability social discontent would be rife. No democratic or totalitarian Government has as yet been able to arrange matters as to enable the large peasant under-employment to be exploited, while the man is maintained by his family. It is obvious that the Government which could succeed in doing so would reap an immense advantage immediately and might achieve dominance among the underdeveloped areas, both intellectually and politically.

The development of the last few years make it tolerably certain that something of this type has happened in China, with completely staggering results. These developments are based on the establishment of, at first, loose, but at the moment rather close, economic co-operatives forcefully directed from the Centre and capable of ruthlessly imposing

whatever the Communist high command wishes to achieve in mobilising to the utmost the relatively unemployed mass of Chinese rural workers.

It is, of course, necessary to take all figures with some scepticism. China, like India, is cast, and there is not doubt a great many of the statistics which are available must be the ~~xxx~~ result of estimates rather than detailed statistical investigation. There can be no doubt about this, however: the Chinese, working in a sociological background which was far more favourable to the establishment of a planned economy than the Russians were able to count on, have achieved an almost complete domination over underemployment. They have used manpower for investment in works which most Western observers would have judged impossible to perform without heavy machinised equipment.\* It seems that literally hundreds of millions of people have been mobilised for various works, and the result of their effort is phenomenal. The irrigated acreage has apparently been extended by something over 20 million hectares; the fertiliser input is staggering. Thirty-five million acres of low-lying land which used to be waterlogged, were provided with drainage. This involved 33 billion cubic metres of earth moving. Trees were planted in an area of something like 200,000 sq. kilometres, or more afforestation than the whole world put together. Most of China's crops are threatened by the continuous rise of the bed of the Yellow River, leading to floods, due to the immense quantities of earth carried by it from the Loess Mountains and, moreover, a large part of the Chinese industrial plans are based on storing the waters of the Yellow River and the Yangtze Kiang for the generation of electricity, which would not be possible so long as erosion continued, as it would fill up the dam basins. Afforestation will solve this problem.

The summer crop, despite the inclement weather conditions seems to have increased by some two-thirds in China. The total foodgrain production rose by a sixth. This increase

represents as much as that achieved by India during the whole of the first Five-Year Plan. It seems that the Chinese, having been very noticeably below Indian standards, have now reached the Indian availability for food. They expect to have a large surplus in two years' time by the end of the present Five -Year plan.

~~XXXXXXXX~~ I

RURAL REVOLUTION

Nor is this all. While the main forces of reconstruction centred on agriculture and related infra-structure, a completely new development has taken place in creating rural industries. Already during the war, some foreign experts had occasion to admire the Chinese ingenuity in producing small arms ammunition and tools with barely more than their hands. This skill has now systematically been put at the disposal of the rural reconstruction, and carried through with a completely ruthless energy under conditions which would hardly be tolerated by anybody but the Chinese. In consequence, vast increases have taken place in the supply of tools and equipment, which in its turn helped form the rural revolution. As, in these matters, it is always the first step which counts, there can be little doubt that this will gather increasing momentum.

In the same way, there has been a successful effort to establish small-scale industry, even in those fields of manufacture which are traditionally reserved for heavy equipment.

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\*It was the reliance by India on such highly complex mechanical equipment which had to be imported, which has been one of the main causes of the exchange crisis to which India has fallen prey, and which, as the result of the advice of international bankers, imposed not merely a cut in the second Five-Year Plan, but also threatens to dominate the conception of the third.

Consequently, a vastly quicker increase in industrial output has been possible than would have been expected by most observers, and far greater and far more pervasive than has been achieved even in the Soviet Union. No doubt, statistics must be treated with some reservations in this respect too. But, whatever is thought of the actual figures, the order ~~ex~~ of magnitude of the progress seems incontestable and ~~aw~~ awe-inspiring. The increase in coal production rose from some 63 million tons to 130 million tons in 1957 (this alone is double the end target of the second Plan ~~xxx~~ for India). In 1958, it is said to have risen to about 200 million tons. In 1959, it is planned to exceed 300 million tons. Steel production is expected to jump from 5.3 million tons in 1957 to over 10 million tons. Machine tool output has increased in the same gigantic proportions.

#### A NEW ECONOMIC REVOLUTION

Indeed, the Chinese experiment must by now be regarded as far more significantly revolutionary in its scope and far more interesting for the future of poor areas, than the Soviet development, however impressive that may have been.

Its importance is due to the fact that, for the first time, a country has been able to mobilise ~~xxxx~~ the inert masses without first having to equip them with more or less elaborate equipment. Thus, the increase of both employment and output has been far more instantaneous than in Russia (or, of course, in India), where increases in output are planned mainly as the result of prior investment and not as the result mainly and mobilising inert underemployed rural manpower. Once this success has been achieved its cumulative results follow as an inevitable torrent, for, with increased production, increased capital equipment is put into the hands of already employed people, and thus productivity will grow steadily without waiting for a prodigious effort of equipment. If we contrast the Chinese success in quickly boosting steel production with the relatively long period needed until similar result



could be achieved even ~~xx~~ in Russia ( not to speak of India), the portentous significance of this new system of totalitarian rural mobilisation becomes clear. At the end of the transition period, the workers will be absorbed in highly capital-intensive and high productive works whose building has been proceeding all along. The fact that the public sector is pervasive permits the establishment of industries on the basis of large-scale output capable of competing in the world market. The motor car industry in China is restricted, it seems, to one firm capable of, in the end, producing hundreds of thousands of vehicles. In India, several small-scale firms were permitted to start, thus condemning them to low productivity.

#### WESTERN INCAPACITY

What has been the response of the Western world to these revolutionary developments in the competitive system of economic and social organisation? Has it, at long last, been realised that only a determined concentration of economic and social betterment can save us from being undermined from within, from losing the race of competitive co-existence in the most vital areas of the world?

The answers to these questions are unfortunately wholly in the negative. We have, despite all warnings in the Sputnik, as well as in the wheat-fields and baby-steel-smelters of China, continued our slipping back into a pre-copernican system of thought, with money at its centre, which has been the bane of the inter-war period, combined with a Montgomery-Blimpishness on the military front which disregards the bitter lessons of the humiliating retreats and losses suffered in all peripheral areas. The reason for this incapacity is not far to seek. Even the progressive parties have suffered from a smug complacency which blinded them to the critical outlook of the non-Soviet countries.

Influential members of the Labour Party have come to share the views of American business consultants, patronised by the largest of big business, that the character of the American and also of British capitalism has completely changed since before the war. The economic problem had, in this view, been conquered, and steady progress assured, uninterrupted by those devastating fluctuations of business activity which disorganised the United States in the 1930's and devastated the world's primary producers.

Where the business economists and the Socialist "re-thinkers" differed was only in that the one wished to have large tax reductions so as to give "incentive" for individual effort and investment (while at the same time expressing alarmist ~~new~~ views about the menace of inflation and crying for dear money) while their progressive opponents wanted to combine an increasing Americanisation of tastes and increased accent on material advance, driven forth by mass-advertising media, with greater equality enforced by a refined and multifarious tax reform. The contradiction between equality ~~xxxxxxxx~~ ~~xx~~ ~~xxxxxxxx~~ ~~xxxx~~ and the American way of life seemed to bother the Left as little as the Right was aware of its own contradictions between simultaneously advocating both tax reductions and dear money.

In point of fact, the consequences of economic disarmament which has been enforced unilaterally, both in America and Britain by the ruling Conservative Governments showed the pre-maturity of these claims. It was no longer possible to deal with the fundamental cause of inflation, the steady increase in costs, especially wages, by a conscious policy of income ~~xxxxxxxx~~ distribution, because the subtle controls needed had been abolished. Thus, on the one hand, the full employment created a speculative boom, which drove share prices towards new heights, while, at the same time, sage claims resulted in a steady upward movement of prices.

### DEFLATION

In the absence of controls, this could only be countered by drastic reduction of demand, by credit restriction and dear money, though it was becoming increasingly clear that there was no excess of demand which could possibly have accounted for the increase in the price level. When dear money was nevertheless enforced, despite mounting evidence of under-employment, the futility of the policy was amply demonstrated by the failure of ensuring stability. Domestic costs and prices continued to increase in the face of mounting unemployment and this increase was only partially offset by the slump in the price of primary goods. Yet the latter caused grave difficulties of the less privileged areas were very much accentuated. While unemployment is still rising in Britain, and is at a very high level in America, a distinct stiffening of interest rates can be observed in America, accentuated by official policy, and there is little sign of a recovery of the export income of the primary producers.

In the absence of a balanced income distribution policy, there is no doubt that further deflationary action will be ~~thought~~ thought inevitable by the American authorities, and this must render the current revival, astonishing as it was, very precarious. There was no change in the attitude to these matters in the Western European industrial countries either, and the sternest admonition addressed to the poorer countries coming from their representatives at the New Delhi annual meeting of the I.M.F. showed that it would be foolish to hope for such a change.

The general implications of current American attitudes for the West are obvious and ominous. But the dogmatic laissez-faire approach to economic matters in Europe and in Britain, in particular, is even more destructive of the hopes of the immediate post-war period that a new and more prosperous era was ~~dawning~~ dawning, as their problems are far more complicated.

DISINTEGRATION OF BRITISH ECONOMIC POWER

The economic disarmament in Britain and the Sterling Area in general had particular regrettable consequences in this respect. It coincided with a determined drive in Europe towards the creation of the common market with unified tariffs and some rudimentary beginnings of a common economic policy. Had the Sterling Area been maintained at its former strength, Britain and her Commonwealth partners would have had a useful bargaining counter in hand, with which to enforce modifications in the Common Market structure, so as to avoid disruptive effects on the rest of Europe and the Commonwealth by diverting rather than increasing trade.

But the British Government had taken a prominent part in emasculating the O.E.E.C. which might have, immediately after the war, increased and co-ordinated European investment and thus created a large viable economic areas with the whole Commonwealth as a complementary partner. At the same time, it was the British Government that enforced a considerable reduction of the credit facilities provided by the European Payments Agreement, and its replacement by gold payments. Thus intra-European trade was discouraged, as gold reserves remained precarious, and a loss resulted in sharp deflationary action.

Nor was this all. The ~~British~~ Conservatives, in strange contradiction to their past, espoused the cause of passive liberalisation, without positive policies to facilitate readjustments and help the weaker members of the regions. These effects culminated in the proposals to establish a Free Trade Area in Europe, conceived as a completely negative return to the interplay of free markets though excluding agriculture.

The ham-handed manner in which this proposal was put forward rendered the British bargaining position even weaker than it would in any case have been, because of the unilateral abandonment of the Sterling Area preferential system.

Consequently, further concessions were forced on Britain without as yet leading to any acceptance of the Free Trade Area by the partners of the Common Market. Thus, instead of leading the smaller countries and preventing, by this leadership, the emergence of the Common Market in its present shape (after all, there were plenty of opponents and critics in France as well as in Germany who could have been encouraged by the British Government instead of being rebuffed), Britain was forced into a position, where at best, she would have to accept an unconditional entry into a system very much closer resembling the Common Market than the original Free Trade Area.

Now even this would not have been fatal, if policy in Britain had steadfastly been calculated to increase national investment and productivity, so as to meet the growing threat of increased German productivity. The actual policy, however, had a doubly unfavourable effect. It made it likely that Britain would have to accept more or less unconditionally the entry into the Common Market, without being able to safeguard the interests of the Commonwealth. At the same time it made England less capable of sustaining the pressure which, inescapably, would be ~~produced~~ produced by having to accept prematurely German competition without protection. The dear money policy and credit restriction prevented productive investment which got under way in 1955 from increasing further. When monetary pressure was relaxed it was not investment but consumption that was stimulated. A more unfortunate policy for Britain could not have been imagined: in the absence of a sharp and steady rise in productivity expansion is bound to run into a severe deterioration in the balance of payments.

Nor was this all. Instead of increasing foreign aid, to parry the consequences of declining demand, to the vital areas of Asia and Africa, there was a continued drive to cut back foreign aid and to cut agricultural production in developed ~~xxx~~ areas,

instead of increasing the first and using the second to enable the poorest areas to increase the rate of their development. Yet, the first terrible difficulty in the way of capital accumulated in poor areas cannot be solved without using methods which had to be adopted by Stalin in Russia, or even those which are now practised by Mao in China, unless foreign aid is increased.

#### VERY UNWISE

The so-called Wise Men of G.A.T.T., in their rather unwise report, have put forward the idea that the trouble of the underdeveloped areas were due mainly to agricultural protectionism in advanced countries.

It is quite clear, however, that a revolution in agriculture is taking place in the capital-rich countries, a parallel to ~~the~~ which can only be found in the industrial revolution of the late eighteenth or early nineteenth century. Decrease in agricultural protection might accelerate this revolution by eliminating the weaker peasants and farmers in highly industrialised countries, and leading to a concentrated ownership of operational units with rapid increases in productivity. An eminent German expert, Professor Baade, believes that the whole of Europe's needs could easily and economically be supplied by Europe itself, with something to spare, if this revolution were enforced, as it obviously would be by discontinuation of protective measures. It is under ~~the~~ way in any case. No salvation for the poorer areas could be looked for in that direction, save for ~~the~~ some tropical produce which are now subject to heavy excise taxes. Only a determined increase in aid for the vital uncommitted poor areas could possibly enable them to achieve their aims in a democratic framework.

#### THE FAILURE OF THE WEST

These simple, if vital, ~~the~~ truths are not realised, despite the complete ill success of nonetary mystification, the combination of inflation and stagnation, the protagonists of deflation had not learnt the lesson.

Those strategically vital areas whose march towards prosperity has suffered an appreciable setback in the last few years-India and Turkey being the most important examples - are now enjoined by the I.M.F. and the financial leaders of the West to "live within their means," to cut back commitments and to use the diminished proceeds of their precious exports for an increase in the gold reserves. A more unfortunate counsel could hardly be possible.

If the fall in the export proceeds leads to "moderation" in development plans, this will mean that the progress towards self-sustaining growth will be further imperilled. The contrast of stagnation with the industrial and agricultural transformation of China might prove impossible to support within the framework of democracy. While preaching freedom, the present policy of the West, in fact, means the encouragement of the spread of ~~xxx~~ dictatorships. The example of Burma and the renewed suspension of constitutions, however far they might have been from being democratic, in Thailand and Pakistan, should warn people in Europe and America that the growing social and economic tension in the non-Soviet area will, inevitably, lead to hopeless and hopelessly negative dictatorships. If their social and economic record will contrast violently with the material achievements of the Communist world, all resistance to a totalitarian solution of their problems will be worn away.

The talk about the danger of outside subversion and the need for military resistance to Communism, which has been spreading increasingly of late, does not stand up to critical examination. Unless it is speedily reconsidered, the gradual defeat of the West is inevitable. It is the activities of the Western Finance Ministers and economic leaders which really subvert the non-Communist orbit. Instead of preaching ~~xx~~ restraint and encouraging consumption in the already rich countries, the leading non-communist states ought to revert to the war-time plans of rescuing the uncommitted areas from

an economic decline.

THE I.M.F.

What is needed to readjust the balance is a new management of the international institutions, not obsessed by the economics of the ~~the~~ nineteenth century which are totally inapplicable to present problems. Such a reorganised International Monetary Fund might be endowed with ~~Central~~ Banking powers, enabling it to sustain the acceleration of the development plans of the countries hit by the temporary depression of demand for their produce, as a result of fluctuations of economic activity in the more developed areas. In addition, the old war-time plans advocating the creation of a really powerful international investment board should be revived. Such a Board could use the unemployed productive powers of the highly developed areas, in the shape of additional export, for long-time plans advocating the creation of a really powerful international investment board should be revived. Such a Board could use the unemployed productive powers of the highly developed areas, in the shape of additional export, for long-term investment in the poor areas. In this way, totalitarian progress based on the compulsory mobilisation of man-power and total planning could be matched, without having to change the democratic system of government in the non-Soviet orbit. What is needed is not a cut back in the plans of the non-~~communist~~ committed world, but their decisive strengthening so as to enable them to match totalitarian achievements.

These ambitions will seem hopeless, so long as the Conservative parties remain in power in America, Britain and Germany. Thus, the elections in these three leading countries will decide far more than merely the fate of social progress in industrial countries. Should the progressives not carry the day, as it may well be, for policies and politicians can now, as it seems, be sold to the electorates even in literate countries - like toothpaste or new automobile models - the outlook for democracy is sombre.



Mao and Khrushchev then need do nothing more than await developments and sit back; it will be the Finance Ministers and Central Bankers, with Mr. Per Jacobsen at their head, who will do their work for them. Only reform and belief internally and on an international scale can prevent the victory of revolution. - All Rights Reserved.

LESSONS OF 1957-58 ECONOMIC RECESSION IN THE U.S.  
Good Luck Was One of the Factors That Brought About  
Recovery

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As this is written, more than 4,000,000 Americans are still out of work and looking for jobs. And yet it can be stated confidently that the 1957-58 recession—the most severe since World War II — is over. That is, the economy has moved decisively upward from the low point reached about last April, is still moving upward and shows every sign of continuing to do so well into 1959.

This is an event of very great importance. A prolonged and ~~xxxxx~~ severe economic slump in the United States would have had the worst possible effects at home and abroad. This is old stuff, of course, yet it is frequently forgotten. In the endless barrage of crises and bad news from around the globe, success stories tend to get lost. A post-mortem on the 1957-58 recession, therefore, clearly is in order.

There is a certain pattern about recessions. Something or other causes a slump in one or more major sectors of demand (this time it was defence orders, exports and business investment in plant and equipment). The change in dollar magnitude may be quite small at first, but it has the major effect of reducing the flow of orders to business and thus changing business sentiment. Business men, acting with ordinary ~~prudencia~~ prudence, suddenly stop building inventories and, instead, start living off the inventories they have. This shift quickly becomes the major cause, in dollar terms of the decline in production and employment. The 1957-58 recession was no exception.

The threat, of course, is that the quick drop in production and thus in workers' incomes—though caused

almost entirely by inventory change - will reduce consumer purchasing power and thus consumer buying. Then there would be a major additional downward force and a sort of cumulative downward spiral would be underway.

Obviously, however, inventory liquidation cannot continue for ever, provided the total of final demand is maintained. Thus the anatomy of recovery is the anatomy of those forces and events that kept final demand high long enough for the "inventory cycle" to run its course and for normal growth factors in the economy to assert themselves again.

What bolstered final demand this time? The number of factors involved is surprisingly large, but, since each played its part, there is no escape from listing them. They group themselves naturally into three broad categories:

#### I. Good Luck

The first category has to be labelled simply that, for it consists of items that helped the economy out of the recession without having been adopted or planned for that purpose. Together, they were very important, indeed.

1. The sputniks. One of the important contributing ~~factors~~ factors to the slumps' beginning in 1957 was a drastic cutback in defence ordering that began about July of that year - a cutback ordered by Secretary of Defence Wilson, in order to help the Government stay within its debt limit. Had defence spending continued at the pace reached in the spring of 1957, the debt limit would have been pierced, and the President was determined to avoid asking Congress for another increase.

Then, in October, came the first sputnik and an aroused reaction in the public. Before long, the old

"ceiling" on total defence spending was lifted, then a big supplemental appropriation went up to Congress and, after about four months, the flow of defence orders increased sharply. In the first six months of 1958, these orders totalled \$10.8 billion, as compared with only \$6 billion in the final six months of 1957.

The orders had gone down faster than actual spending, and they went up faster. But many economists believe that orders influence economic activity more than does actual spending. In any case, there is no doubt whatever that the big surge in defence ordering in the first half of this year was a major element in recovery.

2. The highway programme. This mammoth undertaking was gathering momentum when the recession struck. As we shall see, highways also come under the "management" side of recovery, but, in this case, they qualify more under the "luck" side. Spending in the first six months of 1958 almost all related to earlier actions taken before anybody had dreamed of the recession was \$2.2 billion, the highest six month total ever.

3. Government benefit programmes. A handful of little-noticed actions by Congress in 1954, 1956 and 1957, taken for reasons wholly unrelated to the recession, proved a big help in bolstering the total of personal incomes, and thus of consumer spending.

An increase of \$170 million a year in veterans' disability benefits took effect in October, 1957. Changes in the Social Security Law made farmers eligible, and allowed women to collect benefits at the age of 62. And there was a new programme of disability benefits under Social Security.

All of these hit the economy at just the right time - last winter. Leaving out entirely the regular rise in old-age benefits that occurs every year - to be touched upon later - they added about \$1.2 billion to the annual rate of personal incomes in the first half of 1958.

4. The farm economy. A number of elements worked

toward a higher farm income, none of them associated with Government policy. Mainly because of long-run supply conditions with pre-recession roots, there were excellent prices for livestock last fall and winter. A freeze brought a sharp rise in fruit and vegetable prices. Government programmes, as we shall see, cushioned potential declines in prices of other items, with the result that the annual rate of farm income in the first half of 1958 was up by \$2.3 billion over the same period of 1957.

5. The Federal pay rise. Past inflation and a coming election made this piece of legislation inevitable this year. It pumped out about \$350 million in lump-sum retroactive payments in July and added \$1.5 billion to the annual rate of incomes of Federal civilian and military employees.

## II. Built in Stabilizers

The second broad category of factors that bolstered demand consists of those changes in the economy- all tending to maintain incomes- that have been legislated into the economy in the past, or have been worked into it by changing ways of operation. There are four main items:

1. Income maintenance for workers. This, of course, is the most familiar -unemployment compensation. It made up about one-third of the drop in wage income for those laid off, supplying \$3 billion to the annual rate of incomes by the second quarter of 1958.

2. Income maintenance for farmers. Farm price supports effectively insulate growers of several major crops from the effects of over supply. They work all the time - in boom and in slump. They helped to keep up farm income in this recession.

3. Income maintenance for the aged. Every week of every month, more people qualify for Social Security retirement benefits. Besides, in contrast to the days of the Great Depression, there are formal programmes for relief, partly financed from Washington, for the needy aged who do

not have Social Security or have so little they cannot get along. Old age cheques of both kinds now go out every month at the annual rate of nearly \$10 billion- the highest ever.

4. Income maintenance for stock-holders. This is something not generally realised. Corporations suffered the sharpest drop in profits in the post-war period during the 1957-58 recession, but they scarcely cut their dividends at all. This is the result of a number of factors, one of the most important of which is the modern 52 per cent. corporate tax rate - which means that half of a less in profits is absorbed by the Government. In any case, the dividend maintenance in this slump paralleled a similar occurrence in each of the two previous post-war recessions.

A few other built-in items in our modern society probably deserve a mention.

There are, of course, the purely financial reforms of the New Deal years- bank deposit insurance, control of stock market margins and mortgage insurance. No one heard anything about bank failures in this slump, but, even if there had been some failures, the sheer panic of the depression days would have been avoided, because of deposit insurance.

Then, there is the steady impact of a rising population on the spending of State and Local Governments for ~~such~~ such things as schools, water and sewer systems. The rise in State and Local spending has been going on for years at the rate of about \$3 billion a year, and it continued during the recession. There is every reason to expect it to continue indefinitely.

Note probably should be taken, too, of our shifting labour force. This is a point not yet thoroughly analysed. But it seems fairly clear that the large relative shift toward white collar jobs and away from blue collar jobs,

together with a parallel shift out of farming and mining and manufacturing and into trade, Government and services, has given a far higher proportion of our population than ever before a feeling of job security. Consumers all through the recession spent money about in line with their incomes, and showed no important signs of panic. One reason may well be that the great bulk of them never felt much fear that their jobs would disappear.

### III. Management

The last broad category of reasons for recovery is the only one that qualifies for the term "management" - things the Government did specifically to halt the slump. Despite a great deal of talk and an air of feverish activity the catalogue of significant actions is modest. Of the five items that are worth listing, only two had a major effect on the recovery, the other being small, or having taken effect only after the economy was solidly on the upward path.

1. Easy money. The Federal Reserve System switched dramatically last November from credit restraint to credit ease. It is obvious that easy money and low interest rates cannot generate recovery by themselves, but they are almost certainly a pre-condition for recovery. The nation's money supply did not contract in the recession, as it used to in old-fashioned slumps.

The sharp drop in interest rates made it far easier for State and Local Governments to float their bonds and finance their expanding activities, and their borrowing reached a record in the first half of this year. Easy money was also a major contributor to the change in the housing market, the next item on the list.

2. Housing. This is one of the few activities that the Government can juggle quickly. The Administration and congress together took a series of actions reducing down

payments in connection with mortgages insured by the Government, reviving the moribund G.I. housing programme and even providing \$1 billion in mortgage money at subsidy rates through a special emergency programme.

Together with the effect of easy money on the mortgage ~~xxx~~ situation generally, these actions had a tremendous impact. Housing starts hit their low in February and then zoomed starting in May - in the face of a sidespread ~~and~~ belief that the market was pretty well saturated and that the ~~xxxxxxxx~~ recession was frightening potential buyers. There is no doubt whatever that the change in the housing market, in this recession as in the other two post-war recessions contributed materially to recovery.

3. Highways. As noted, this programme was already rolling as a result of past actions. The big antirecession programme did, however, begin to have some effect on new contracts by, perhaps, June. The major effect, just the same, will be in 1959 and afterward.

4. Public works speed-up. It is doubtful whether all the actions taken and the flood of directives from the White House resulted in the addition of much more than \$300,000,000 to total spending in the economy, and much of that is still to come.

5. Emergency unemployment compensation. This was the legislation providing additional weeks of jobless pay for workers who had exhausted their benefits. It was undoubtedly warranted on humanitarian grounds alone, but Congress took so long passing it that by the time the first benefits were paid, in late June, recovery had already started. The programme will, however, help to add steam as the recovery proceeds.

The fruit of most, though not all, of these items showed in a single, all-important statistic: personal incomes. While industrial production fell off 13 per cent. from peak to trough, personal income fell off only 1.6



per cent. It was actually on the rise from March onward, and, by July, had passed its former peak. This was the reason for the strength of personal consumption throughout the recession, and thus the explanation of why the vicious downward spiral never had a chance to take hold.

#### Lessons of Recession

Sox much for the anatomy of recovery. What has the 1957-58 recession taught us about the modern American economy?

Undoubtedly the most important lesson is also the most obvious: the modern economy is still very susceptible to the business cycle. Nothing has happened to rule out slumps. We shall undoubtedly have more of them from time to time.

This "fact of life" produces something of a split in the academic and political worlds. One school believes all slumps are a tragic waste and can be avoided by proper Governmental measures - both improved built-in stabilisers and vigorous and massive action at the earliest stages of a downturn. Another, and almost certainly larger, school feels mild slumps are preferable to the probable results of the type of Governmental action needed to prevent them altogether : namely, inflation far worse than we have had.

Whichever school one prefers, it seems likely that, in practice, the second school will prevail, and that we shall go on having slumps. They are probably inherent in our economic system.

Another lesson is that one of the new factors in the economy that was supposed to make us more slump-proof is clearly not as potent as some analysts had thought it. It concerns the key sector of business investment in plant and equipment.

The new factor, so the theory went, was that modern business men schedule their investment on a long-term basis and do not change their plans with the first sign of economic squalls. Well, perhaps some of them do. But enough do not, as evidenced in this recession, to make business investment

almost as volatile a part of the economy as ever.

The evidence comes from a comparison of reported investment plans, as surveyed by the Government, and actual spending. Total investment spending in the first and second quarters of 1958 was a whopping \$5 billion, at annual rates, below the originally reported intentions last fall and winter. The conclusion is clear : a very large number of businesses took fright and halted their investment, thus making the slump worse.

The next lesson from the recession is equally disconcerting. It emerges from the run-down of factors that brought recovery the tremendous role of luck. Next time, there might not be such a favourable combination of events. In the 1953-54 recession, incidentally, the most important single action helping to bring recovery was a \$5 billion tax cut that took effect in January 1954 under an automatic provision of existing law that had nothing to do with recession.

Finally, on the unhappy side, this recession strongly bolstered evidence from the 1953-54 slump that, in the modern economy, prices are strongly resistant to drops in demand. Price cuts, except in the case of sensitive raw commodities that operate on a fairly pure supply-and-demand basis, were few and far between. The consumer price index, influenced by "lagging" service prices and by special factors affecting food, actually rose.

The disquieting lesson is not so much ~~that~~ rise as the failure of prices in the industrial part of the economy to fall. What happened to prices, incidentally, also happened to wages, and this helped considerably in preserving a high level of personal incomes.

But there are also some rather more comforting conclusions to be drawn from this slump.

Again, the most important is perhaps the most obvious: the built-in stabilisers actually work. Mainly because of legislated changes, but partly because of new ways of operating in the modern economy, such as the shifting of

the labour force, the economy clearly has strong resistance to recession. The stabilizers will surely work next time, too, though few economists believe they are enough to do the whole job of preventing severe trouble by themselves.

Furthermore, the 1957-58 recession should have put to rest for good the idea that "when America sneezes, Europe catches pneumonia." Europe's international balance of payments actually strengthened throughout the slump. The pound sterling has never been stronger since the end of World War II.

This slump showed, too, what a number of economists have been suspecting for quite some time, that automobiles are by no means decisive in the American economy. The myth of the importance of Detroit is an extremely hard one to shake, but the fact is that production of new cars makes up well under 5 per cent. of our total economy. The figures put out by the industry to the effect that one out of seven workers makes his living directly or indirectly from the automobile are misleading in one sense, because they include such ~~xx~~ people as gasoline station operators and repair men, whose business suffers not a jot by a slump in new car sales.

It is true, of course, that the bad reception of the 1958 model cars contributed to the slump (although the money that was not spent on cars~~xx~~ was ~~xxx~~ spent on other things, contributing to prosperity for other sectors of the economy, ranging from travel agencies to food processors). But the important thing is that a decisive recovery began and is continuing without any improvement at all in the auto sector.

The next lesson is a bit less clear cut. But it seems safe to conclude that the "confidence" factor- as it affects the consumer- is working in the modern economy against slump and for recovery. This item probably should be over-rated. But because of a feeling of job security, or whatever, consumers as a whole kept right on spending all through the slump, despite all the talk about the enormous amount of

"discretionary" spending that now exists in America. A University of Michigan survey concluded:

"While a larger proportion of American workers gave been affected by this recession than at any time since World War II, the amazing thing is that a generally optimistic attitude continued to prevail, in spite of large economic losses".

Finally, there is the happy thought that the Government did not even try the most drastic weapon it has - a tax cut. Needless to say, the decisions of the President and Treasury Secretary Anderson against using this weapon has been thoroughly vindicated by events. But if, next time, the luck factors should not be as favourable, the tax weapon would always be available. It can rapidly create a significantly large amount of demand, and there is good reason to hope - though still no proof - that it could do the job if a future slump became bad enough to require its use.

Adding up these lessons from the 1957-58 recession, the observer is almost forced to the conclusion that the ever present threat of a cumulative decline - that is, a severe depression - has not yet been abolished from the system, and that good management as well as good luck is going to be required when the business cycle again starts on its ominous way. The American economy clearly has enormous strength and resiliency - a fact worthy of no small feeling of satisfaction. But this has not been the last time that it will suffer a severe stomach ache. - Copyright 1958 by the New York Times Company.

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## FINANCE FOR THE GROWTH OF INDIA

By Eugene R. Black  
President International Bank for Reconstruction and Development

Less than three months ago, in connection with my visit to New Delhi to attend our annual meeting. I had an opportunity to see something of the development drive at present in progress in India. At that time I saw so much that was changing and new that ~~it~~ it was easy to forget that the objective of this drive, as of the World Bank itself, is to help in tackling a problem as ancient as India itself. The age-old Hindu injunction to give generously to the poor reminds us that extreme poverty and the disease and despair that it breeds, familiar even in the earliest civilizations

But in India, as in other parts of the developing regions one can today see how technological advance has brought changes which are at the same time making the scourge of poverty more serious and furnishing new weapons with which to attack it. On the one hand, modern standards of health and hygiene and the resulting fall in mortality rates are causing the population of the world to increase at an unprecedented rate: there is no known way in which the resources of the earth can ~~xxx~~ for long be stretched out enough to meet the full needs of a population that continues to increase by more than 30 million a year in the world as a whole and by six million in India alone. On the other hand, a continuing chain of scientific investigations has brought to light ways in which the food output of an acre of land can sometimes be doubled or trebled, while new types of machinery and new sources of energy can increase by a regular two to three per cent, a year the volume of manufactured goods that a single worker can produce. Governments around the world are, therefore, driven forward by the need to break away from a situation, in which the growth ~~xxx~~ of the production is in constant danger of being overtaken by the growth of population. As in India, they are determined to join the group of countries in which the upward trend of production yields a steady improvement in living standard.

### BANK'S CAPITAL TO BE RAISED

At the Bretton Woods Conference, organized by the allied countries in 1944 to lay the foundations for the Bank and Fund, discussions were based on the assumption that the need for capital in

the post-war period would be much greater than could be obtained through traditional channels. To provide a part of the necessary funds the Conference stipulated that the payment of a subscription should be a condition of membership in the Bank, and adopted a formula under which the largest subscriptions come from the countries with the largest resources. The United States and the United Kingdom between them subscribed \$4,475 million, representing nearly half the total subscriptions of \$9,521.5 million, while India's \$400 million makes it the fifth largest shareholder in the Bank.

But the feature which distinguishes the Bank from all other international agencies is the large extent to which it depends on the confidence and support and private investors around the world. It now has the equivalent of \$1,845 million in bonds and notes outstanding in six currencies and in some 30 countries. With the greater part of its paid-up ~~and~~ subscriptions already used in its lending, the further expansion of the Bank's operations depends on its ability to raise additional funds in the capital market. It has therefore, become an active borrower as well as lender. During its fiscal year ended 30th June 1958, it increased its funded debt by \$625 million. Since that time, it has made two further bond issues totalling \$175 million of which more than half was sold outside the United States.

The ability of the Bank to borrow additional resources in line with the increasing needs of its member countries has sprung partly from the record of its operations. The total of \$4,111 million that it has so far lent is helping to support productive enterprises in 49 countries and territories, and the interest and ~~xxxxxxx~~ principal repayments due on these loans have all been made. But the attractiveness of the Bank's bonds to so many investors in so many countries also owes much to the structure of the Bank's capital. Of the total subscribed by member-countries, 80 percent representing \$7,617.2 million, is not paid up but may be called to meet obligations arising out of the Bank's loans and guarantees. This provides most substantial backing for the Bank's bonds.

#### LENDING DOUBLED

In order to allow for the continued expansion of the

Bank's borrowing, it was decided, without dissent, at our meeting in New Delhi that the time had come to consider an increase in subscriptions. In the background of this decision is the fact that there has been no general revision of the Bank's subscription since the time of Bretton Woods, whereas the value of money has suffered a general decline and the need for the international flow of capital has greatly increased. Moreover, the Bank's rate of lending has nearly doubled over its past two fiscal years, and the maintenance of the present high rate will require very large additional borrowings in the capital market.

A proposal actively discussed by the Executive Directors since the annual meeting is that member countries should be called on to raise their subscriptions, but in such a way that the Governments authorising the increase should not be thereby ~~required~~ required to pay over any additional funds to the Bank. This result could be achieved through an undertaking that the increase, while providing additional capital subscriptions to back Bank bond issues, would not, in fact, be used or called for use in the Bank's lending.

#### WORLD GETTING OVER BORROWED?

An increase in the level of subscriptions could do much to remove the possibility that a shortage of funds might curtail the Bank's future operations. But it must not be overlooked that a banking operation may be limited by the borrower's inability to service debt no less surely than by the lenders' inability to raise the required funds. Since the nature of the Bank's operations requires the repayment of loans in the currency lent, and, since the Bank does not lend the borrowing country's currency, it has to form an assessment of balance of payments prospects, and of other factors bearing on the borrowing country's ability to earn adequate amounts of foreign exchange, before any new loan can be made. Inevitably, such an assessment sometimes results in the conclusion that a proposed loan would add more to the borrowers' foreign exchange obligations than it could safely meet either out of its existing sources or out of new production capacity that could be created by the loan. In view of the steep post-war rise-reflecting, among other things, the growing volume of Bank

operations - in the amount of international debt, fears have sometimes been expressed that the world as a whole might be getting over-borrowed.

This is obviously a question of vital importance to us, and one that we have recently been subjecting to careful study. Among other things the study has revealed that, at the end of the first post-war decade, the total of Government guaranteed long term external debt carried by a group of 36 major borrowing countries amounted to equivalent of \$18,000 million, or twice the sum at the end of the war. Meanwhile, owing to the rise in interest rates as well as in the total borrowed, annual service obligations had trebled. These additions to the debt burden must be seen, rapid economic growth and the consequent increase in borrowing strength that also took place. It was found that, in fact, the rise in production and income over the decade had in most debtor countries, been enough both to cover the higher level of debt service and to allow for increased domestic investment. These investigations are summarised in a book written by two economists on the Bank's staff Dragoslav Avramovic and Ravi Gulhati - and recently published under the title Debt Servicing Capacity and Post-war Growth in International Indebtedness.

#### PRIVATE CAPITAL

The fact remains, however, that debt having to be serviced in foreign currency can only supply a marginal amount of the total capital required for investment in the underdeveloped countries. No one who knows India can question the need for a very substantial increase in investment in many different fields. Without larger hospitals, more schools, improved sanitation services and other investments in human beings as well as in the means of production, countries in India's stage of development cannot hope to achieve either the standards of living or the production efficiency that is taken for granted in Western Europe and North America. Apart from the growing contribution of the Bank, important resources for these manifold purposes have, in recent years, been supplied by the aid activities of the United States, of the more highly developed countries of the British Commonwealth and, in various fields, of



France, Belgium, Germany, Norway, Japan and other countries. But much the greater part of the need must continue to be met from within the developing country itself.

I said in New Delhi, however, and I have said at many other times that there seems to be a need for further kinds of capital export that will not impose an additional burden on the exchange resources of the borrowing country. The Development Loan Fund set up by the United States Government a year and a half ago, has already committed \$573 million, the major part of which is repayable in the borrowers' own currency. One of the main reasons for setting up a new International Development Association, as proposed earlier this year and at present under study in the United States Government, would be to create an international pool of capital for loans repayable wholly or partly in local currency. As now proposed, the I.D.A. would be an affiliate of the Bank, and I believe that its establishment could usefully reinforce our work.

This discussion of sources and uses of funds must not, however, be understood to suggest that the pace of economic advance is a simple function of the amount of capital that can be pumped into an underdeveloped area. I believe that there is general agreement among those who have studied the problem that additional capital is only one and usually far from the most important of the conditions of progress. Obviously, the adoption of modern production methods requires the learning and dissemination of new techniques, so that new equipment can be effectively operated and adequately maintained. It will also require the acquisition of the managerial talent without which even skilled workmen will not produce anywhere near the limit of their capacity, nor the product reach its full market.

Less obvious but of no less importance is the attitude of the people at large and their willingness to make experiments and ~~the~~ change existing social patterns for the sake of increased production. I should be the last to deny the stabilising and unifying effect of traditional institutions and old-established ~~and~~ scales of value. But we are all of us unhappily familiar and not only in underdeveloped countries—with situations where, the large bodies of the population bogged down in what Pandit Nehru has aptly

called "the old rut of habit," devotion to established practice bars the road to progress. In rural areas, larger water-supplies and improved cultivation methods will remain unused, while, in the towns, manpower will be wasted through insistence on practice based on the needs of old-fashioned hand operations rather than of the machine age. In this regard, the differences between peoples are usually rooted in the far distant past and can only be changed slowly and with difficulty. Fortunately, however, modern methods of travel and communication have provided Central and Local Government agencies with a new power to influence and speed up the process.

#### ROLE OF THE BANK

In a campaign that calls for such widespread effort and such fundamental changes, the role of the Bank or of any other outside agency is necessarily a restricted one. When requested, it gives advice on the scale and direction of a Government's investment programme. When new lending is under consideration, it undertakes a review of a country's economic situation and of the Government's economic policies in so far as they affect repayments prospects. It was in this connection that, earlier this year, the Bank sent a mission to India to study the progress made under the second Five year Plan. Among the conclusions submitted to the Government was that, in view of the acute strain already imposed upon the balance of payments, efforts should henceforth be concentrated upon completing projects in process before large new investments were embarked upon. But this did not by any means imply, as was sometimes said in India at the time, that the Bank underestimated the tremendous achievements already made nor that it advocated any standstill on future development plans. Our main concern was to underline the danger of launching fresh projects until adequate sources of finance had been assured.

The aspect of a country's development effort with which we have the most direct contact is the execution of the individual projects that are brought to us for financing. So that our lending may have the maximum impact on the pace of development in the country concerned, we select projects in the basic services and other fields vital to the economy. We also study the engineering

and other technical details, and the arrangements for supervision of the construction programme and for management of the finished project,. By forming a judgment on these complex question, the Bank believes that it can not only ensure the most fruitful use of its own funds but also help member-countries to avoid mistake for which they might have to pay dearly in later years.

#### PATTERN OF LOANS TO INDIA

Our lending in India & fittingly illustrates the general pattern of our activities. The total (Net of small sums cancelled at the borrowers' request) of our 19 loans outstanding amounts to \$500 million, nearly \$200 million more than in any other country. Disbursements under these loans, all of which are long-~~time~~ term and carry interest ranging from 4 to 6 per cent, have recently risen to an annual rate of more than \$100 million or equivalent (Rs.48 crores), as compared with total disbursements under all our loans in all countries of about \$600 million a year. One loan has already been completely repaid and total repayments by India amount to \$28 million.

Over 40 percent of our lending in India has been for the railways. In a country where there are few trunk roads suitable for modern traffic and few good inland waterways, the Bank has been impressed by the extraordinary importance of rail transport in distributing products from the new industrial areas and reducing the age-old isolation of the village. Our first loan for this purpose was made in 1949; five subsequent loans have raised the total to \$207.8 million. The variety of sources from which the railway programme is drawing its supplies is reflected in the fact that one of the loans was entirely in Japanese yen, one in pounds sterling, one in Italian lire, and the rest in United States dollars and other currencies.

Other lending for transport has included the equivalent of \$43 million for the improvement of the ports of Calcutta and Madras. We have also lent \$5.6 million to help Air-India International to enter the age of jet-travel. The rest of the large sum required to buy long-range jet planes was provided by a loan from five commercial banks in the United States, and by

drawing on India's sterling balances to pay for engines made in England.

For power, which can serve so many fruitful purposes in industry as well as in homes and offices, we have lent \$66 million. The greater part of this has been for hydro-electric and thermal projects in the Damodar Valley. The balance is helping to increase bulk power supplies for Bombay by financing construction and enlargement of the new thermal station on Trombay Island.

We have also lent heavily for private manufacturing enterprises, which are playing such a note-worthy part in expanding many sectors of the Indian economy. Our lending for the steel industry, which figures so prominently in the second Five year Plan, is made up of \$50 million to the Indian Iron and Steel Company and \$107.5 million to the Tata Iron and Steel Company. This is allowing the expansion programmes of the two companies to go forward without imposing the additional medium-term repayment burden that results when such projects are financed by suppliers' credits. We also helped to launch the Industrial Credit and Investment Corporation. The Corporation appears to be successfully overcoming the initial problems involved in launching a new venture of this kind, and promises to become an increasingly important stimulant to growth of smaller private enterprises.

To my mind a particularly useful feature of our lending has been the help that it has given in opening the North American capital market to India. The \$11.2 million commercial bank credit arranged at the time of our loan to Air-India was the first direct Indian borrowing in the United States market. There was also a large participation by United States and Canadian banks in our second loan to the Tata Iron and Steel Company; the nine participating banks provided almost half of the \$32.5 million lent. Neither of these market borrowings carried the guarantee of the Bank. The ability of India to raise funds in this way marks a significant forward step in its financial growth.

In the years ahead, we expect to continue our close collaboration in India's economic development. But my recent

visit convinced me that Delhi is aware of the strict limits imposed on the pace of future development by the critical foreign exchange situation. We all hope that further talks among the main creditor countries, similar to those held in the Bank in August 1958, will reveal ways in which the accounts for the last two years of the second Plan can be balanced. Even so, it is already clear that the third Plan will have to be built upon financial foundations considerably different from those of its predecessors.

It must be expected, for instance, that, for the third Plan India will have to finance by internal savings a greater proportion of the Public investment programme than the 50 per cent, financed in this way during the second Plan. The valuable post-war legacy of the sterling balances has now been largely exhausted. Medium-term credits for imported capital goods and heavy long-term borrowing abroad have created a service obligation which, by the beginning of the third Plan, will be running at about Rs. 100 crores a year. The food gap, taken in the first years of independence as short-lived and abnormal, now threatens to reappear whenever the harvest is poor, whereas the United States surpluses that have recently been helping to fill it can hardly be regarded as a long-term solution. Falls in the prices of major Indian exports have further darkened the balance of payments picture. From all this, it is clear that India must expect to depend more on its own resources including, of course, the ever-increasing additions to production that will flow from completed projects.

But the eyes of the world will continue to be turned on developments in India and on the stupendous experiment in democratic planning that ~~is~~ is there being undertaken. For its part, the Bank will remain convinced of the importance of this effort both for Indian and for other countries, and will seek to make still further contributions to its success. In so doing, we shall be greatly encouraged by the good use to which India has put the external resources already supplied, and by the belief that equally effective use will be made of additions to these resources in the new chapters now opening- Exclusive to "Commerce".