

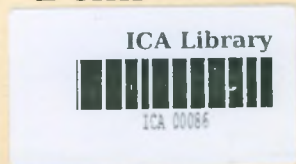
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Professor D. G. Karve Commemoration Volume

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International Cooperative Alliance
Regional Office & Education Centre
for South-East Asia, New Delhi



INTERNATIONAL COOPERATIVE ALLIANCE

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**PROFESSOR D. G. KARVE
COMMEMORATION VOLUME**

Foreword

PROFESSOR D.G. KARVE was cast in cooperative mould. He was one of the galaxy of Indian cooperative leaders of his day. He stood out among them as a world leader. This was amply proved by his unanimous election to the Chairmanship of the Principles Commission appointed by the Congress of the International Cooperative Alliance, held in Bournemouth in 1963. The adoption of the Commission's Report by the Congress held in Vienna in 1966 was again a recognition of Professor Karve's leadership by the world body of the Cooperative Movement. This signal contribution to cooperative ideology, by itself, will ensure to Professor Karve and the other Members of the Commission an honoured place in the annals of the World Cooperative Movement.

Professor Karve's intellectual calibre was matched by his moral strength. So the solution of any cooperative problem came to him with the greatest ease. At conferences, whether national or international, where Karve sat became automatically the head of the table. When he spoke, his diagnosis and remedy, interspersed by self directed wit, kept the audience spellbound and the latter soon realized that they were in the presence of a giant.

Karve was the embodiment of Cooperation. His success did not affect his inborn humility. He was ever ready to discuss and to consider the other man's point of view. It has been well said that "Cooperation is a very adaptable instrument — and it is the one economic method that applies in all circumstances" (De Soyza). Professor Karve by his solutions to the problems presented to him at cooperative conferences as well as elsewhere invariably proved the truth of this statement. His adaptability of approach to the circumstances and the needs of the hour was remarkable. He never failed to find a solution that was at once both practical and cooperative.

The International Cooperative Alliance was, therefore, very fortunate in having the benefit of his advice and guidance in regard to its Regional Office & Education Centre for South-East Asia. Professor Karve was the Chairman of the Advisory Council of this office from its inception in 1960 to the time of his demise in 1967 with a short break in 1962-63 when he was Deputy Governor of the Reserve Bank of India. Professor Karve's guidance and inspiration contributed in large measure to the proper development of the ICA's activities in the South-East Asian Region. Thus he enjoys a special niche in the hearts of all leading cooperators of this Region.

This Commemoration Volume containing most of the important writings of Professor Karve and the unveiling of his portrait in the Regional Office in February 1971 will mark the Tenth Anniversary of the founding of the ICA Regional Office & Education Centre for South-East Asia in New Delhi. The cost of this portrait, significantly, has been met by the national cooperative movements of the Region. These tributes are but "too little payment for so great a debt". These are nevertheless small tokens of no small gratitude for the eminent services rendered to the ICA Regional Office and the Cooperative Movements of the South East Asian Region by Professor Karve who was regarded by them as their true guide, philosopher and friend.

Through his valuable writings Professor Karve will continue to inspire the present and future generations to keep the torch of Cooperation aflame.

I wish to record here my deep gratitude to the Gokhale Institute of Politics and Economics, the Vaikunth Mehta National Institute of Cooperative Management, the University of Bombay and to Mr V.D. Karve, Professor Karve's son, for extending to us their full cooperation in collecting the writings of Professor Karve. A special word of thanks is due to the publishers of the various journals from which we reproduced articles by Professor Karve and to Dr N. K. Kulkarni for writing a biography of Professor Karve for inclusion in this volume. The hard work put in by Mr H.P. Lionel Gunawardana, Deputy Director (Publications) and Mr Daman Prakash, Assistant (Publications) of this office, in connection with this publication is gratefully acknowledged.

New Delhi,
January 13, 1971

P. E. WEERAMAN
ICA Regional Director
for South-East Asia

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Professor Dattatreya Gopal Karve (1898-1967)

PROFESSOR D. G. KARVE
—A BIOGRAPHIC SKETCH

Professor D.G. Karve (1898-1967)

DATTATREYA GOPAL KARVE was born in Poona on December 24, 1898 in a middle class family of very moderate means. He was only one-year-old when his father died. The death of his father added to the financial hardships of the family. He was, however, brought up by his mother who took up a teaching job in a primary school. He completed his school education at the New English School in Poona. He was undistinguished from his fellow students in the school and there was no hint in his school career of the greatness that he later achieved. He sustained a failure in mathematics at the first year examination of the college and lost a valuable year. This seems to have shocked him into earnestness about his studies. There was to be no failure thereafter either in an examination or in life. When he entered the B.A. class and could choose the subject of his liking, he found himself at his best. He became a favourite student of Professor V.G. Kale, an eminent economist and professor. Karve brought glory to himself and honour to his college and teachers by winning the much-coveted Cobden Club Medal by securing the first position in economics at his B.A. examination in 1921. He won fresh laurels at the M.A. examination by winning the Wedderburn scholarship in 1923. Although service in Government College offered glittering prizes and a comfortable career, Karve decided to join the Deccan Education Society as a life-member and professor of economics in 1923. He was deeply influenced by the patriotic fervour of the founders of the Deccan Education Society and by their passionate faith in the transforming influence of education. He, therefore, decided to devote himself to the task of educating the people not merely in the

Biographic sketch written by Dr. N.K. Kulkarni, Principal, Deccan Education Society's Brihan Maharashtra College of Commerce, Poona, India.

sense of moulding the minds of young men in colleges but also in the broader sense of spreading enlightenment among the people. His abiding faith in education as a great catalyst was reinforced as years rolled on. He continued to emphasize the importance of education and training, through lectures and articles in learned journals, in different spheres of activity ranging from cooperation to economic planning.

The teacher-student relationship between Professor Kale and Professor Karve ripened into fruitful friendship. In 1927 they together published a book on Principles of Economics in Marathi. The idea behind writing the book in Marathi was to enlighten not only the student but also the lay public on a subject of increasing importance. In 1929, inspired by the success of their effort, they brought out another volume on Indian Economics in Marathi. It was an attempt to present the basic principles of the science in the context of Indian conditions. Although the basic principles of the discipline are the same, their application, they argued, will have to be suitably modified to suit the local and political milieu of each country. The idea in presenting the subject in Marathi, they said, was to enlighten the people on the economic conditions in India and the outside world with a view to enabling them to form intelligent judgments on the problems confronting the country.

In 1932, on the retirement of Professor Kale, Professor Karve became Head of the Economics Department. The same year he published his book "Federations." With the revival of world-wide interest in federalism, he thought that it would be a source of enlightenment to people interested in political institutions if he could present the subject in a historical, comprehensive and comparative manner. Although he was conscious of his limitations arising from a lack of touch with a living federal constitution, he tried to make the book as informative and instructive as was possible.

The Great Depression and the problems created by it had forced many people to have a searching look at the forms of political and economic structure. The issues raised by the Great Depression were of momentous significance for the future of Western civilization. Can parliamentary government successfully tackle the problems created by the Great Depression? Are democratic institutions compatible with the capitalist organization of society? Thinking people everywhere were deeply disturbed by the ominous developments on the political and economic horizon. Professor Karve, who was deeply interested in these problems contributed to the Bombay University journal two long articles on these subjects. In 'Parliamentary Government, Its Implications and Extent', (1934), his main purpose was to help in an understanding of the merits of the discussion centering

round an important form of political organization, a form which had been authoritatively presented as the goal of constitutional progress in India. In defence of the parliamentary government he argued that at least it has as efficiently tackled the problems created by grave emergencies as the presidential form of government. It may be argued that it can meet situations of grave emergency only by modifying and even abandoning the normal practices associated with it. But then every form of government, whether parliamentary or presidential, develops some unusual features under the strain and stress of national emergencies.

The years immediately following the Great Depression witnessed serious setbacks to democratic institutions in many countries. Some thinkers attributed the decay of democratic institutions to the essential incompatibility between democracy and capitalism. The most powerful representative of this school of thought was Professor Laski who had made this incompatibility the central thesis of his book 'The State in Theory and Practice'. Professor Karve challenged this thesis in his article 'Democracy and Capitalism'. He argued, "while the economic structure of modern society requires to be repaired in important respects, e.g. monetary reconstruction and regulation of industry, the attempt to condemn the entire capitalist structure to doom on the basis of its recent misfortunes shows as little historical perspective as scientific acumen." He challenged the thesis of Laski that collectivization of the means of production would create a classless society. He was convinced about the impossibility of the emergence of a classless and equalitarian society.

"Granting for the sake of argument," said he, "that collectivization of the means of production is a desirable end, Laski's optimism about the prospects of democracy under that system appears to be ill-founded. It is not quite certain that even in collectivist society inequality of economic possessions will not be tolerated. Moreover, economic possessions are only one of the several bases on which classes may be formed. ...He is almost a 'Utopian'. He appears to believe that once the collectivist state is established democracy would have smooth passage. Unfortunately such does not appear to be the case. ...Human nature, differing capacities, and differing scales of moral and material values are bound to produce serious political and economic inequality between man and man, whether the order of society is capitalist or socialist. ...Nor is the doom of Capitalism irrevocable than the uncertainties of a collectivist society. ... The conviction of the present writer is that the central problem of the relation between the individual and the State is not vitally affected by the economic system. ... Economic inequality does have signi-

ficance in narrowing the chances of actual enjoyment of the fruits of political liberty on the part of the citizens and hence all policies which are aimed at removing the root causes of economic inequality deserve our best support. But all that the social and economic reform might achieve will not do away with inequality altogether, because inequality arising out of the special attributes of individuals is natural and even helpful to the fullest growth of personality."

I have taken the liberty of reproducing this long quotation because it gives us an insight into his views on various problems. It gives a clue to his individualism and optimism concerning the possibility of reconciling capitalism with democracy. It also brings out the realist in him who knows that every system has its weaknesses and that while the ideal of equality may serve as a guiding star, it would be unwise to assume away the basic springs of inequality which no system can eliminate. The essence of democracy is the equal right for everyone to become unequal. He was optimist enough to hold the view that capitalism could be peacefully and constitutionally modified so as to satisfy the legitimate claims of the democratic way of life.

Although he was an individualist, he had recognized the failure of *laissez-faire* capitalism. As early as 1935 he emphasized the necessity of economic planning in an article contributed to the college magazine. What he wrote in connection with planning in India that time showed that he was prepared to penetrate beneath the surface of things to find out the limitations of policies and programmes instead of accepting them with facile optimism. While deploring the lack of planning in India, he dealt with the limitations on planning and outlined the conditions for successful planning in India.

"It must be admitted", he wrote, "that the future constitution of our country will have to be one in which the provinces will possess a substantial latitude in shaping their policies to suit local needs and will have an almost complete freedom in the execution of measures. . . . For economic planning to be comprehensive and effective, it must be put into force by an All-India agency. Initiation, formulation, guidance and supervision will have to be in many cases centralized. The funds of Central Government will have to be used on a large scale for the successful working of many plans. These developments so vital and necessary in the economic sphere appear to be at variance with the prevailing school of thought in Indian politics. Unless a reconciliation between the two views is found by having a federation with a strong and actively functioning Central Government, the chances of planned economic progress in India are very limited. . . . The

danger of a wise plan being foundered on the rocks of indifference and even of ignorant opposition must be avoided. This danger is very real in India, where progressive mentality and civic sense are ill-developed even in urban areas and among the educated. In its widest significance economic planning will have to be based on social and cultural progressiveness of which there are welcome signs during the last few decades, but which have not as yet gathered enough momentum to constitute a strong movement for national reformation.”

These words written more than 30 years ago have a quality of freshness even today. The passage of years has not weakened their relevance to our times. Two decades of planning have served to vindicate the prophetic words regarding the essentials for successful planning in India. Did he have a premonition of the evil forces that would beset planning in India?

The year 1936 saw the publication of his book ‘Poverty and Population in India’. He attempted therein a treatment of the population problem from a historical and analytical point of view and tried to indicate the solution in the light of that study. The emphasis on the historical approach was the result of his conviction that it enabled one to view the problem in proper perspective. This approach which is reflected in most of his writings gave him a broader perspective on the problems and a sounder basis for their assessment. While attempting the task of analysing the problem, he was quite aware of the limitations of his study. He, however, tried to take the sting out of the possible criticisms by stating that his aim was to stimulate the discussion of the important subject rather than to attempt a comprehensive and exhaustive study. According to him the population of India constituted a problem neither in its numbers, nor in its rate of increase, but in its conditions of ill-health and poverty. By comparing the rate of increase of population with the rate of increase of production in India and by comparing the rate of population growth in India with that in some other countries, he tried to prove that there was no cause for undue alarm. He suggested that what was necessary was to break the vicious circle of ill-health and poverty—slower economic growth—poverty of physique, mind and resources—easy births and easier deaths. The vicious circle could be broken principally by launching a comprehensive programme of social and cultural reform and by inculcating in the minds of people the supremacy of reason. This emphasis on bringing about a fundamental change in the attitudes, habits of mind and outlook on life recurs again and again in his writings. Possibly Ranade’s plan and methods of work which he had studied in depth and for whom he had the greatest regard must have influenced his thinking in this respect.

Although he was deeply involved in his academic pursuits and spent his time in educating the public in the broader sense by stimulating the discussion of the burning issues of the times and focussing the attention of the people on them, he shouldered administrative responsibilities. He was an officer in the University Training Corps. There was one incident in this phase of his career which showed how courageous a man he was. There was some exchange of hot words and a minor skirmish between two hostel students. The trouble between the two students was purely a personal matter between them and had nothing to do with their religious differences. Unfortunately as one of the two students was a Muslim, the incident threatened to take a ugly turn. The Hindu students gathered in large numbers to settle their scores. When Professor Karve who was then working as Rector of the hostels learnt of the impending trouble, he rushed to the hostels and took up his position at the entrance of the hostels, preventing anyone to enter the hostels. He stood like a rock to give the Muslim student the necessary protection. The situation was saved by his tactful and courageous handling of the incident.

The Deccan Education Society's Willingdon College near Sangli had been passing through a critical period of its existence in the post-Depression era. In 1935 the Society elected Professor Karve as the captain to steer the ship into safer waters. The Willingdon College campus in those days was a vast wilderness with no amenities of city life. Roads were bad, transport facilities were poor, and electricity was yet to light the campus. People who had spent some time in Poona with all its amenities of city life and its social and cultural activities were usually reluctant to be transferred to Sangli. Professor Karve responded to the call of duty and took over as Principal of the Willingdon College in June 1935. One can have an idea of the challenging nature of the task assigned to Professor Karve from the editorial of the Fergusson—Willingdon College magazine. (There was one common magazine for both the colleges until 1937). The editorial read as follows : "Who will not feel the absence of Professor (now Principal) Karve, the head and the heart of the History and Economics Department? By his devotion, Professor Karve has created a tradition for himself and the college—a tradition which will never die. Professor Karve has been appointed Principal of the Willingdon College. That college has sometimes been regarded by the pessimists as a sinking ship; but our faith in the captain is so undaunted that we feel absolutely that even if the dark clouds gather and stormy winds blow, the ship will sail safe and smooth into the haven." The words bear eloquent testimony to the confidence which his colleagues had

in his qualities of leadership and organization. Professor Karve had been a source of inspiration to students of economics, particularly to scholars aspiring after the much-coveted Cobden Club Medal. At the Fergusson College two of his students had won the Cobden Club Medal in two consecutive years. He carried this tradition of scholarship to the Willingdon College and transformed it into a centre of academic excellence which attracted to itself students from distant places. While he inspired and stimulated the scholars, he gave every encouragement to sportsmen. He took such keen interest in the development of extra-curricular activities, that he himself occasionally conducted the physical training exercises and used to be present on the parade ground exactly at 6.30 A.M. He had established intimate links with the neighbouring towns by cultivating contacts with the people in those towns. One of his students in the Willingdon College kept alive the tradition of scholarship by winning the highly coveted Cobden Club Medal.

When Professor Karve took over as Principal, the picture was depressing. Numbers were small, finances were poor and academic distinctions were few. When he relinquished his office at the end of his five-year term in June 1940, there were distinct signs of progress in every sphere. Numbers were increasing, finances were improving, academic distinctions were flowing in and the college had established itself as a cultural and educational centre for the people of neighbouring towns. Above all, confidence in the future of the college had been strengthened. The editorial of the Willingdon College magazine summed up his work in the following words:

“During his five years of vigorous and vigilant administration he strove to set standards of efficiency that have raised our college positively in the estimation of the critical public. As Professor of Economics his reputation and achievements constituted not the least part of his abilities.”

And Prof. Karve himself summed up his work as follows:

“Since June 1935 when I first commenced my duties as the Principal of this college, I have endeavoured to my utmost capacity to place within reach of all my students as many opportunities for fuller development of their faculties as the limited resources of this institution would allow. In matters of academic studies, regularity, wide reading and application; in physical betterment, healthy and adequate exercise; and in the moral sphere a sense of self-respect and devotion to an ideal—these are some of the attainments without which a person can hardly be said to justify the education that he or she receives.” His memory for names and faces was amazing. He used to call the students by their names. The words of advice that he gave

to students on the occasion of inaugural addresses had a ring of authority and sincerity which could not be missed. As he walked, his steps reflected confidence and a sense of quiet self-assurance.

In March 1939 he was appointed the Chairman of the committee by H. H. the Rajasaheb of Sangli to advise on franchises and constituencies with the object of providing representation to the people of the State in the representative assembly of the State. The committee had the unenviable task of suggesting a framework which would be accepted to all sections and interests concerned. The committee, however, did its job well by submitting a unanimous report before the end of the year.

In June 1940 he went back to the Fergusson College as Head of the History-Economics Department. That was the Silver Jubilee year of the History-Economics Association of the Fergusson College. The Association had played a great part in inspiring and stimulating generations of students. Professor Karve, therefore, decided to celebrate the Silver Jubilee by publishing a volume entitled "Historical and Economic Studies" which included articles by past and present members of the Association. The volume was dedicated to Professor Kale, the founder of the Association, whom Professor Karve held in great reverence.

In April 1941, Professor Karve was appointed by H. H. the Rajasaheb of Sangli to be the Chairman of the committee set up for the purpose of carrying out an Economic and Industrial Survey of the Sangli State. Although Professor Karve was busy with other academic work, he accepted the responsibility and discharged the work efficiently by submitting a comprehensive report within a year.

The year 1942 marked the birth centenary of the late Justice Mahadeo Govind Ranade who has been rightly regarded as one of the architects of the Indian Renaissance. Professor Karve entertained a feeling of the greatest veneration for Ranade's work and had taken some pains to understand the plan and methods of national work which Ranade had favoured. As he was convinced that the principles and maxims enunciated by Ranade would continue to be valid for a very long time in the future he set himself the task of writing a biography of Ranade whose activities in various fields had done much to strengthen the forces of the Indian Renaissance.

In 1943 when the Deccan Education Society started a Commerce College, later named as the Brihan Maharashtra College of Commerce, Professor Karve was appointed its first Principal. This was the period when the World War II with its problems of shortages in every field threatened to create unexpected difficulties in the formative years of the college. Yet the college got off to a fine start under the dynamic leadership of Principal

Karve. With his excellent organizing ability, wide administrative experience and his reputation as a great economist he succeeded in building the college into a centre of excellence. He brought to bear on his work a rare combination of tact and talent and laid the solid foundation for future progress. He approached the problems of the college in the spirit of an entrepreneur and made it into a viable proposition in a non-industrial centre like Poona. He had built up a team of eminent teachers who enhanced the academic reputation of the college. He took a number of steps to give a practical bias to the commerce education with a view to making the commerce course more purposive and oriented towards the needs of trade and industry. He persuaded leading businessmen to serve on the Advisory Board of the college, invited leading figures in business and industry as guest speakers, organized tours of students to centres of trade and industry and arranged for vacation training for selected students in industrial firms and banks.

In 1945 he was elected President of the All-India Economic Conference. It was a fitting tribute to his scholarship and his academic standing among professional economists. From the presidential chair he made a plea for strengthening the foundations and broadening the scope of economics. Dealing with the criticism that the work of Indian economists, especially in the field of economic theory, lacked originality and academic worth, he said, "I am convinced that there will never be a living economics in this country so long as there is not a living social power *i.e.*, an authority which is organically connected with the social environment of which the economist himself is a part. This circumstance also explains, though it might not justify, a good amount of political bias in some of the writings professedly economic subjects published in this country." He made a plea for the establishment of research institutions providing adequate facilities for independent investigation as part of a deliberate plan.

By 1949 he had spent more than 25 years as a teacher and he thought it was time for him to enter a larger field of activity. When, therefore, he was offered the Executive Editorship of the Bombay District Gazetteers in 1949, he laid down his office of Principal to take up the Editorship. Between May 16, 1949 when he took over as the first Executive Editor and Secretary, Bombay District Gazetteers (Revision) Editorial Board and September 22, 1952, when he relinquished the post, he contributed a good deal to the formulation of the entire scheme for the revision of the district gazetteers and for the compilation of general state volumes never thought of at that time by other states or by the Central Government. The press copy of the Poona Dis-

trict Gazetteer was prepared under his direction and the chapter on History for the Poona volume was written by him.

When the Programme Evaluation Organization was set up in October 1952, with initial assistance from the Ford Foundation for an Evaluation Programme for Community Development, Professor Karve was appointed its first Director. The work of the organization was considered to be of great importance. It was a new field of activity and the work was of a specialized character, for which a person with a wide background and experience, not only in statistical surveys and other fields, but also in economic and administrative spheres and with a standing in academic circles was required. When Shri G. L. Mehta as a member of the Planning Commission was asked to suggest a suitable person for the post, he could think of no person more competent than Professor Karve. Thus began his association with the Planning Commission and the Community Development Administration as well as with the Ford Foundation whose Director in India, Dr. Douglas Ensminger, held him in high esteem. He combined in himself a special knowledge of rural life, as well as public administration, familiarity with statistical techniques, experience of directing and organizing field investigations and an established position among scholars which imparted the weight of authority to his judgments and criticism. During his tenure of office of a little less than 3 years, the Programme Evaluation Organization brought out two important Evaluation Reports on first and second year's working of Community Development Projects, besides several other reports on specific subjects. We have it on the authority of Shri G. L. Mehta that Professor Karve had become disillusioned with the Planning Commission and was critical about the functioning of the Community Development Programme. He, therefore, decided to shift the centre of his activities to Bombay and Poona. But during the period for which he was Director, he laid the foundation for evaluation on sound lines and developed the organization into a useful body.

A major area of his interest was public administration. As an adviser on economic policy and administration, Professor Karve realized that the success of planning depended on its effective and efficient implementation. He emphasized the need for educating the people regarding planning in general and regarding particular plans and projects in which they were interested, as well as the need for transforming the apparatus of public administration into a fitting instrument for carrying out the challenging tasks of a planned economy. He was, therefore, deeply interested in the problems of public administration. The report of the Bombay Administrative Enquiry Committee of

which he was the Chairman is considered to be one of the most important documents in the annals of reform of public administration in India. As the Chairman of the Advisory Committee of the Academy of Public Administration at Mussoorie where I.A.S. Officers are trained for a year before they are assigned to the State Governments, he initiated many changes in the programmes carried out at the Academy. His interest in the problems of plan administration led to his association with the Indian Institute of Public Administration as a Director in 1954. It was in this phase of his career that he also headed the committee appointed to make policy recommendations regarding the development of village and small-scale industries. The committee devised a framework of policy for the development of small-scale and village industries in the second and subsequent plans. The investment pattern in the second and third plans was considerably influenced by the policy recommendations of the Committee.

In 1956 he was elected President of the All-India Agricultural Economic Conference, a fitting tribute to his continued interest and active work in the field of rural development. In the course of his presidential speech he emphasized the importance of agriculture not merely as a major branch of economic activity but as the foundation of the Indian economy and made a plea for a larger investment in agriculture. He also emphasized his conviction that in rural areas general education as also growth of habits of progressive action through institutional channels have to progress considerably before development efforts could gather enough momentum to constitute an agrarian revolution. The pragmatist in him made a plea for avoiding rigidity of the doctrinaire approach to the problems of cultivation. Wherever joint cultivation was likely to yield appreciably better economic results, he would favour it. But he was afraid that joint farming would weaken the incentive to greater production and make for conspicuous unemployment. It was, therefore, necessary to make sure that these disadvantages were counter-balanced by appreciable advantage on technological and organizational sides before adopting a plan of joint farming. The democrat in him wanted a happy balance to be achieved in organizing planning with a view to achieving prosperity without the loss of freedom.

While he was busy with his manifold activities in different fields of planning, public administration, rural development and cooperation, he was offered the Vice-Chancellorship of the University of Poona in 1959. As an educationist he had to respond to the request made by his friends and elders like Sir R. P. Paranjpye. He addressed himself to the task in a businesslike manner, much to the chagrin of people who wanted to convert the

various bodies into debating assemblies. When he found that his recommendation accepted by the Executive Council regarding the officiating Vice-Chancellor during his period of long leave was not accepted by the Government, he resigned his Vice-Chancellorship before the end of his three-year term. That was rather an unfortunate end of an efficient regime.

He was now free to devote himself heart and soul to his main area of interest and activity *viz.*, cooperative movement. He was friend, philosopher and guide to the cooperative movement and had made a notable contribution both as an elder statesman of the movement and as a spokesman of cooperative opinion. He will be remembered particularly for his powerful advocacy of state partnership in cooperation. As a member of the Standing Advisory Committee on Agricultural Credit from its inception in 1952, he was very closely associated with the evolution of policy on cooperative credit. He was closely associated with the Bombay State Cooperative Union where he worked as Vice-Chairman for several years. He left a deep impress of his dynamic leadership on the activities of the Union. He was the Chairman of the Crop Loan Evaluation Committee appointed by the Chairman, the Bombay State Cooperative Bank Limited in 1956, whose findings have now been accepted as model all over India. In view of his vast experience, gift of organization and deep interest in the problems of cooperation and rural banking, he was called upon to serve successively as a Director of the Bombay State Cooperative Bank, Vice-Chairman of the State Bank of India (1960-62), and later as Deputy Governor of the Reserve Bank of India (1962-64). As Deputy Governor of the Reserve Bank of India, and as a member of its Standing Advisory Committee, he was the architect of a number of schemes of the Reserve Bank which sought to give concrete expression to the recommendations of the Rural Credit Survey Committee Report. His tenure in the Reserve Bank marked an eventful phase in the evolution of rural credit institutions. In particular, the extension of the Bombay Regulation Act to cooperative banks helped to bring them into the mainstream of banking policy and the activities of the Agricultural Refinance Corporation of which he was the first Chairman may be regarded as the precursor to the greater interest evinced by the commercial banks in the field of agricultural credit. There was hardly any important expert body relating to agriculture or cooperation with which he was not associated in one capacity or the other. To name a few, he was associated with Standing Advisory Committee on Agricultural Credit, Reserve Bank of India, Panel of Economists, National Development Council, Land Reforms Panel and Research Programmes Committee of the Planning Commission,

Agricultural Economists Committee, Indian Council of Agricultural Research, All-India Warehousing Corporation, Cooperative Development and Warehousing Board, Madhya Bharat Cooperative Planning Committee, Standing Sub-Committee of the Central Committee for Cooperative Training, Reserve Bank of India. He was also President of the Indian Society of Agricultural Economics. He was special consultant on agrarian reform to United Nations and F.A.O. and Honorary Fellow of the Institute of Social Sciences, The Hague.

Although his term of office as Deputy Governor came to an end in 1964, his association with the Reserve Bank continued in an informal and advisory capacity. A great believer in the transforming influence of education, he devoted great attention to the establishment of cooperative training institutes with the object of building up a cadre of trained cooperative banking personnel. The whole structure of cooperative training owes its origin and inspiration to Professor Karve in his capacity as the Chairman of the Central Committee of Cooperative Training of the Reserve Bank of India. In that capacity he visited all the cooperative training centres in the country and took keen interest in building up this structure. One of the last assignments that Professor Karve undertook for the Reserve Bank was to head a Working Group to go into certain problems connected with credit for agricultural inputs. The Reserve Bank also availed itself of Professor Karve's informal advice in the field of federal finance. After he had served on the Fourth Finance Commission in 1965, his advice was sought by the Reserve Bank in matters relating to States' finances.

His nomination as Chairman of the Advisory Council of the ICA Regional Office & Education Centre for South-East Asia was a testimony to the reputation that he enjoyed as a great theorist of the cooperative movement in international circles. He travelled extensively and visited almost every country to study the progress of cooperative activity and education in Cooperation. In October 1964, the Central Committee of the ICA set up, at the request of the International Cooperative Congress, held at Bournemouth in 1963, a Commission on Cooperative Principles. Professor Karve was appointed a member of the Commission. The Commission, at its first meeting held in London in December 1964, elected Professor Karve as its Chairman.

The Commission was asked to examine the present application of Cooperative Principles of Rochdale Pioneers in different types of societies and in countries with different political and economic structures and to advise on the right foundation of

cooperative principles in the light of their application throughout the world. It was a tribute to Professor Karve's capacity for reconciling divergent views without sacrificing basic principles that the Commission was able to produce a unanimous report in March 1966. It was a still greater tribute to the sound, practical and integrated thinking of the Commission under the Chairmanship of Professor Karve that the 23rd session of the International Cooperative Congress held at Vienna in September 1966 adopted a resolution accepting this recommendation and authorizing the Central Committee to suggest appropriate changes in the rules of the ICA. The Report which has been acclaimed all over the world as an important landmark in the cooperative field will remain a monument to Professor Karve's scholarship, clear vision, broad perspective and gift for reconciling conflicting views.

Towards the end of his glorious innings of public life, he was associated with the House of Tatas as the Executive Director of Dr. Homi Bhabha Fellowship Council. We have it on the authority of Shri G. L. Mehta that Professor Karve displayed considerable imagination, tact and skill in building up the complicated structure of the Council.

By any standards, Professor Karve had had a successful innings. In family life he had enjoyed the blessings of a happy married life for more than forty years. In the public life he had played an active and positive role contributing in his own quiet way to the solution of the problems in various fields. In the process, however, he had drawn very heavily on the reserves of vitality and energy for more than 20 years. Outwardly there were no signs of the approaching end. The intense activity of a number of years must have subjected the constitution to a heavy strain and weakened it. As he was resting in his chair after his lunch on December 28, 1967, he had a sense of restlessness. His wife was by his side. The doctor was sent for. But before the doctor could arrive, death had laid his icy hand on the dedicated life.

It is not possible to do justice to a life packed with multifarious activities in various fields in a short biographical sketch like this. The list of committees, commissions and other bodies with which he was associated either formally as a member or chairman or informally in an advisory committee will be too long to be enumerated here. To the deliberations of these committees, he brought an incisive mind and a gift for reconciling divergent views. His mature judgment and expert counsel were great assets to the committees in which he worked. It was very often as an informal but respected adviser that he influenced decision-making at the highest levels. As he did not hanker

after any position or office, he was forthright in the expression of his views and was not afraid to state them either in the public or in private. He was not afraid to make the people think about some unpleasant truths. About our lip-service to high principles he told an Indian audience, "In many fields in which the world is interested, we have been known to be capable of formulating in felicitous terms lofty objectives and high-sounding principles, largely for other people's use. To be honest to ourselves and to the rest of the world whom obviously we cannot hope to impress all the time by mere words, we must set an example of honest, efficient and progressive cooperative activity in conformity with the principles which we enumerate." He was equally forthright in pinpointing the defects of the cooperative movement and in criticising the attitude of government when he wrote, "Especially in the matter of dropping the crutches of governmental assistance and of securing support from all our countrymen on the basis of a convincing performance, our co-operators as a class do not seem to be doing enough." Cooperative societies, he reminded the co-operators, must promote thrift and must not act merely as distributors of credit. He was equally critical of lack of inter-ministerial consensus on the practical implementation of generally accepted government decisions in regard to cooperation.

The range of his activities was almost staggering. And although his public activities on a major scale began after he was past fifty, he devoted himself to them with the zeal and enthusiasm of a man in the prime of his youth.

He rarely adopted an *ad hoc* approach to any problem. It was his capacity to consider a problem in the perspective of total policy in all the related fields that enabled him not to mistake the trees for the forest. He like many others realized that economic development was far too important a subject to be left to economists alone. He, therefore, brought an inter-disciplinary approach to bear on problems of development. His interest in history, politics and economics enabled him to attempt an integrated treatment of the subjects handled by him.

In everything that he did, he displayed a sense of duty, dedication and discipline. He took his work seriously and gave to it the best that he was capable of. It was this sense that enabled him to take misfortunes in his stride and bear them in a spirit of stoic calm. I do not recall his having worn his worries on his face. It was this sense that enabled him to conduct a meeting of the Academic Council of the University of Poona within a day or two of his having lost his son.

More than one person have testified to his capacity for leadership and his gifts of organization and administration. He was a

shrewd judge of men and knew how to handle them tactfully. He had the unusual gift of drawing the best out of his subordinates and colleagues. He brought to his tasks a quiet self-assurance that comes from a sense of mission in life.

His typical dress—the reddish turban and a long coat—which added colour to dignity suggested an individualist who would hold his own in a world in which men were losing their individuality. To some his dress suggested a traditionalist. But appearances are deceptive. Unlike a traditionalist, he had an open mind on all issues and he was prepared to move with the times both in thinking as well as in practice. He was receptive to new ideas. One had only to bear him expounding his views either at formal functions or intimate gatherings to know that he had a freshness of mind capable of appreciating even the most unorthodox views.

He carried his learning lightly and possessed a rare sense of humour which helped lighten to strain and tension in the most controversial discussion. Referring to the frequent repetition, by a leading western participant at an international meeting on techniques of planning, of the familiar phrase, “you must raise yourself with your own shoe-strings”, he said, “But to raise self with one’s own shoe-strings, one must, in the first place, have a pair of shoes and these shoes should have strings of at least the minimum strength”. Needless to say the point was driven home without generating any heat.

He had almost specialized in the art of introducing guest speakers to the audience and of thanksgiving. Professor Karve was a familiar figure proposing a vote of thanks at the All-India Economic Conferences. To propose a vote of thanks at the end of a function is almost a thankless job as nobody is in a mood to listen to the person doing this formal job. Professor Karve, however, so set the tone and pace of his thanksgiving speech that everybody in the audience felt that it was his duty to be attentive. Whether in making the main speech or in proposing a vote of thanks, he had something important to say and he said it so well, precisely and forcefully that his words compelled the attention of everyone present.

As a practical man, he was quick to realize that theoretical principles will be judged primarily by their consequences in practice, “Discussion about cooperative principles” said he, “must not be conducted in abstract or theoretical terms but rather in a manner which will help people who have cooperative problems of association, of successful business, of competition with other organizations and so on, to solve them. He had also sensed the danger of cooperative bodies developing undemocratic and unsocial tendencies. He, therefore, emphasized that “Coopera-

tion among cooperators, cooperative solidarity among all institutions" must become a living faith with all cooperators. The pragmatist in him was prepared to make the necessary adjustments in a policy if they promised better results, provided the fundamentals were kept intact. His pragmatism is reflected in his flexible approach to various problems. Said he, "If the choice is between a single village primary in a state of weakness and dependence and a multipurpose unit which may muster resources and strength, the latter is preferable." "No rigid or dogmatic statement of strength is possible. It must be our policy to ensure strength of operation."

He was a great admirer of Burkean philosophy of "changing by preserving" or "preserving by changing". He was not in favour of sweeping changes. He was opposed to plans directed towards disturbing the existing structure suddenly. He was not a reformer in a hurry and believed that in many aspects of progress gradualism and variety would be more in keeping with Indian conditions and temperament than rigidity and enforced transformation. He was no dreamer. He had the hard practical sense to distinguish between hope and performance.

The democrat in him wanted to limit the sphere of state activity. He held the view that government must not be the only active power; association in democratic nations ought to stand in lieu of those powerful individuals whom the equality of conditions has swept away. He advocated decentralization in decision-making to be practised by associating the people with centres of decision-making. He was convinced that exaltation of the state was inimical to the basic claims of citizens and to democratic freedom. "No material advantage, even granting for the sake of argument that centralized planning would secure this, is worthwhile having at the cost of democratic freedom", he emphasized in his lecture delivered at the Institute of Public Administration, Patna University. He was afraid that enthusiastic planners and impatient administrators might forget the basic value of federal democracy. He was hopeful that the claims of successful planning could be met without sacrificing democracy.

Such was the versatile personality of Professor Karve. He held many high offices with distinction and lent dignity to them. By his devotion, capacity for hard and sustained work and skill in reconciling conflicting claims, he distinguished himself in every field of activity which he chose for his work. Many people have testified to his great qualities as a human being. His memory will be cherished by his students, friends and colleagues till their time is come.

Part I

Cooperation in South-East Asia Today— Role and Problems

FROM Pakistan to the Philippines all countries in the South-East Asian Region share some common features as developing economies, though none of them, with the possible exception of Taiwan, can be said to have accomplished either their industrial or agrarian revolutions. Most are characterized by a high density of population, an economy dependent on agriculture and a slow modernization of the social and economic structures.

Against this background, however, emerge two trends which are steadily gathering momentum. The concept of a substantially static and unchanging pattern of existence is being replaced by one of rapid growth and movement. While all the technological and material implications of a major socio-economic transformation are only indifferently appreciated, a belief in feasibility of rapid growth is fast gaining ground. It is also recognized that a regime of inherited privilege is no longer sustainable, and a substantial measure of social, economic and political equality is vigorously demanded by the common people of all developing countries of the region.

Another significant feature of the recent history of these countries is their somewhat sudden emergence into a state of political freedom after a prolonged period of colonial subjection. In most cases independence was won after a struggle in which the common people had to be enthused to take part by hopes of a better existence in the future. The newly-independent and developing states of South-East Asia have, therefore, to face the challenge of satisfying the ardent and impatient hopes of their people for a better life. From dependent agricultural and petty industrial employment has to come rapid all-round economic development. Forms of social organization have to provide freedom and equality on the one hand, and industry and skill on the other. It

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is here that Cooperation, in contrast to state management and capitalist enterprise, has a particularly apt role to play.

Fortunately, national independence from colonial rule has usually been followed with state laws to end feudalism. The feudal landlords in their day were rarely known for their merits as agricultural entrepreneurs, finding it more advantageous to levy rental tributes on their cultivating tenants. Therefore, with a loosening of the centralized ownership of land, and its more equalitarian distribution among the tenants, an almost unavoidable concomitant of political change, there has been a strong desire in the minds of the new rulers to utilize land resources so as to maximize the welfare of the cultivators and of the nation's economy. Decentralized ownership and efficient organization perhaps can be best ensured by cooperative management. In countries where little organized cooperative activity existed before the achievement of independence, fresh beginnings of an agrarian cooperative movement have to be made. In newly-independent countries which had some traces of cooperative organization of a restricted and mainly ameliorative nature, they have to be replaced by a new movement of cooperative development, affecting all aspects of the economy.

The extent of direct social or governmental responsibility assumed by the state for the economic progress of its people varies from country to country in this region. But broadly speaking, all governments have adopted policies of some sort of planning for economic development and social welfare. As agriculture is the most important occupation of the people in these parts, economic development spells agricultural progress, and social welfare implies rural reformation. Programmes of community development and of agricultural extension are thus indispensable features of national policy. For better efficiency of the main occupation of the rural people and for better living conditions of rural communities, cooperative ways of business and of corporate life have to be deliberately welcomed and promoted. To a varying extent all the developing nations of the region are doing so at present.

As a first step in this attempt to secure progress, some measure of land reform is almost indispensable. Insecurity of tenure, inadequacy and uncertainty of a share in the produce, and a lack of incentive for developing long-term productivity of the soil, are features of the traditional systems of land tenure. The agricultural worker, tenant or wage-earner, has little attachment to the soil, and thence neither is social stability assured nor is progressive agriculture promoted. To create for as many agricultural workers as possible secure access to particular areas of land as a means of production is, therefore, the first step in land reform. Whether it is a comprehensive measure of tenancy reform, or one of requisition and redistribution of land, land reform tends to bring into existence a new class of small, sometimes very small, farmers. To help them to operate as efficient farmers and thus to contribute to their own and to the community's welfare, further institutional steps are necessary.

What the large-scale landowner failed to do, namely to ensure progressive development of agriculture and a rising level of earnings for the agricultural worker, the newly-created class of small farmers is expected to achieve. They can hope to do so only if further measures are taken to offer to them opportunities of self-improvement by individual as well as collective action. As a first step the state has to set up a system of research and extension which aims at educating the farmer in the skills needed for a more efficient pursuit of his profession. This is the responsibility which

the state alone can shoulder. It becomes apparent in the very initial stages of extension work that an individual attempt to reach the small farmer is an impossible task. Not only is it numerically, financially and organizationally well beyond the capacity of the provincial governments to provide staff to counsel the individual farmers, but also psychologically impracticable. An average peasant in these communities is almost completely insulated against any suggestion for a marked change in his behaviour which will single him out from his neighbours.

Although comprehension and mental stirring may be individual, their practical implementation is almost necessarily a group decision. Traditionally rural communities operate by consensus, not by unfettered decisions of individuals. If the mind of the group can be reached, their ingrained habit of concerted action is an aid, not an impediment, to progress. Joint participation by the farming community in the programmes of extension is indicated as a condition of success. Whether such joint action is institutionalized as a cooperative society may depend on two things. How many of the extension programmes entail the need of a permanent and legally operable relationship among the participants would decide the choice between informal groups and established cooperative bodies. Equally important would be the social outlook of the state.

Status may be imparted to farmer groups in one of three ways. First, the groups may be subsidiaries of a governmental organization, assuming specific responsibilities and receiving specific benefits, with the power of decision remaining with the governmental authorities. Secondly, they may form into business associations, where each member exercises rights according to his economic stake. Neither of these two methods meet the requirements of freedom and equality, the driving forces behind the social and agrarian movements which create land reform. Thus, we turn to the third means of organizing farmers' group, the cooperative, where all members have an equal opportunity to participate in programmes of economic development. Sponsored but not enforced by the national community, the cooperative is the only type of institution on which a democratic society can rely. In the progress of agrarian cooperation in the developing countries, the farmers as well as the national community have a vital stake in the formation of cooperatives.

The prominent position allotted to cooperative organizations in the economic, especially the rural economic, plans of these countries is mainly explained by the consciousness that a major social change brought about by public action cannot be left half-way without risking both the social and economic objectives for which the change was made. Both land reform and democracy are forces leading to greater decentralization, economic and governmental. In promoting cooperatives, therefore, the declared intention of government is to lessen, not to strengthen, centralized influence. If in initial stages government appears to enjoy an unconventional and noticeable role, such as that of participant in capital and management, this is to be traced to a keenness to ensure the success of cooperative organization.

Undoubtedly there is a risk that official participation, starting as a sponsoring support, may develop into a bureaucratic-stranglehold. Three specific safeguards are needed to prevent this. The most important safeguard is, of course, the determination of the general body of citizens to favour only genuine cooperatives as distinguished from departmental and privately-organized corporate bodies. The pressure on govern-

ment exercised by democratic public opinion ought to ensure this. It is open to citizens to urge the claims of genuine public sector operation, as it is open to them to press for freedom to organize associations on the model of joint stock companies. Cooperatives have to justify their existence in competition with these alternatives. Any undue domination of government in cooperative affairs is bound to be resented by the supporters of both nationalization and free enterprise. But above all by an extensive system of cooperative training and by organization of a strong cooperative opinion, government must always be held to a defensive position as a cooperative partner, though its legitimate support must be ensured by efficient and socially responsible operation. There is reason to believe that in almost all countries of the region, where governments have adopted a policy of active promotion of cooperatives, this essentially discriminating transitional and constructive approach is well appreciated.

The main problems about cooperatives in South-East Asia is, therefore, not that of too much Governmental interference, as that of utilizing government support for building cooperative strength as fully and as quickly as possible. Next in importance to spreading the philosophy of cooperative action as a part of developmental activity is the need to adopt forms of cooperative enterprise to suit the circumstances of each case. In rural areas, particularly, cooperatives have to be comprehensive in their scope of action. Not only all business interests, but almost all social life of a villager tends to be integrated. It is, therefore, natural to expect that the general benefit of the members, that is, of a service type. This normally is the case and the number of such societies is steadily on the increase.

Even more important than numbers are the size and managerial quality of these societies. In their relatively stagnant state of economic life most villages have tended to be isolated and inward-looking. In the early days of cooperative movements it was natural to have cooperative associations with membership drawn only from the local residents. Sometimes a single village had more than one cooperative society due to local divisions of caste. Membership of such fragmentary societies was generally very small, and the quality of management, generally voluntary, left much to be desired. Maximum credit was sought by adopting the principle of unlimited collective liability. While this principle did improve the credit of a society to some extent, the basic drawbacks of insufficient creditworthiness and uncertainty about repaying capacity — continued to limit severely the creditworthiness of cooperative borrowers. Lack of resources led to economic weakness and even with long periods of cooperative history the practical results were in most cases disappointing.

In the new developmental concepts adopted after the World War II every feature of cooperative organization was re-examined in the light of its bearing on securing economic development. Starting with a national programme for the promotion of agrarian reform, the extension service was expected to carry the necessary education and enlightenment to the villages. To be able to respond constructively to these efforts primary cooperative institutions with expanding membership and competent management were needed. Hence a programme of reorganization of old, and establishment of a better type of new societies was undertaken, accompanied by an ambitious programme of member education and staff training. Limitations of finance and personnel have often held back progress in these essential respects. Sometimes people in responsible positions have felt hesitant to promote inter-village organizations which may have an

impact on the whole structure of rural society. But by now it is clear in most parts of South-East Asia, that what the rural population desires is a life of active and expanding association to serve better standards of work, wealth, and happiness. All forms of cooperative organizations are being readjusted to this irresistible urge.

Primary institutions have been urged to read a more positive meaning into their function than was the case when they were largely borrowers' clubs. The purpose for which funds are borrowed is now more important than the sum itself. Physical resources, or their financial equivalent, are made available on a liberal scale for a productive purpose which is in conformity with national plans of rural development. Where there is assurance that a member will use the physical resources for a developmental purpose, his credit and capacity to repay are determined not so much by his collateral security as by the manner of use. However, this approach to the responsibilities of the borrower changes the criteria of admissible security so radically that continuance of the principle of unlimited liability of members is no longer supportable. The whole structure and function of cooperative primary institutions will have to be adapted to these changed standards of credit.

At secondary and tertiary levels of cooperative federations greater specialization is necessary. To ensure specialized management and an equal distribution of risk and advantage, finance, marketing and processing should be separated. Large marketing societies dealing in commodities which normally need some processing before they are marketed can combine processing activity with their own. But in many other cases, cooperative processing may be approximately separated from other cooperative activities. Experience in India, Malaysia, Ceylon, and Pakistan, has shown that there are no rigid or uniform patterns of successful cooperative endeavour. According to the varying economic and social conditions and the availability of suitable personnel, different forms have to be tried. This variety of forms is indeed a striking feature of contemporary cooperative experience in the region.

The cooperative sugar factories in India are an outstanding illustration of how in favourable economic and social circumstances, genuine cooperative activity can achieve developmental results. While the need of a growing and more profitably employed population was creating an especially favourable market for sugar, the introduction of irrigation to new areas and the provision of better extension services had improved the prospects of more intensive cultivation of land. Putting these two features together in the traditional pattern of social policy, large land-owners and capitalist manufacturers would have moved in to improve their own prospects. With the prevailing pattern of small farms the immediate results would have been a capitalist factory driving hard bargain against small cane growers and reaping abundant profits from high consumer prices. The direct interest of sugar manufacturers in improving standards of cane cultivation would have been almost nil. Indifferent and unprofitable cultivation by a mass of small growers alongside profitable industrial investment by large capitalists would have proliferated, as indeed was the prevailing pattern before the planned growth of irrigation and sugar cultivation.

To avoid this evil of inefficient cultivation and monopolistic investment the Indian Government adopted a deliberate policy of preference to cooperative operations when granting licences for new sugar mills. The approach encouraged small farmers of cane to join into cooperatives both for the purpose of improving their standards of cultivation

and for setting up sugar factories to process their own cane. In the initial stages cooperative and Government-sponsored financing institutions advanced medium-and short-term loans to the cultivating members for their agricultural as well as manufacturing needs. Sound technical and managerial personnel were also employed on professional terms. In due course, sooner in fact than what one would have hoped, small and medium farmers developed a new initiative for an agro-industrial transformation which has significance far beyond the fields of sugar and cooperation. Though not all cooperative sugar factories were equally successful, under normal circumstances they made good progress and their example is spreading to other fields. No doubt new problems will arise, but they will be problems of growth and institutional adaptation instead of the traditional problems of stagnation and decay.

By contrast cooperation in urban areas has made only limited progress. In developed countries the prevailing pattern of urban cooperation is the consumer store. This type has little relevance to the comparatively poorer residents of Indian cities, whose conditions of employment and housing make consumer association both difficult and inadequate. In some large cities a few successful cooperative stores are in operation for special groups of consumers. But by and large this form of cooperative activity will have to wait until employment becomes more steady and remunerative, housing becomes more ample, and needs and products are more standardized. In a few areas of the region, however, urban credit societies are in operation. Where these societies are not meeting consumer needs of semi-indigent people they are providing small amounts of capital to petty traders. Here again, unless there is a substantial national effort to offer more remunerative channels of employment for the talents and resources of the common people, cooperation will not have its full impact.

The new role for Cooperation in the South-East Asian countries is that of contributing towards the rapid economic development of democratic and decentralized community. This objective cannot be achieved unless the forces of development in the community are both strong and democratic. If these essential conditions are present and are given reasonable assistance from the state, a cooperative sector can be established in the economy, which makes a contribution to the nation comparable to the more familiar sectors of private enterprise and state enterprise. Nevertheless, even under the best circumstances, the faith of the cooperative movement in itself must be strong enough to compete with the private and state sectors, to share in the national economy. Joined to the cooperative principle of economic self-regulation, there must be operational competence comparable to that of the other two sectors. For modern society, especially for a democratic, egalitarian, welfare society, the mere profession of cooperative principles has little appeal. They must be backed by convincing evidence of superior performance. Cooperators in South-East Asian countries are steadily but surely equipping themselves to take up the challenge.

Pattern of Cooperative Leadership

LEADERSHIP consists in a capacity to shoulder responsibility and to carry it out. Even the mere membership of a cooperative body involves a deliberate action which has attendant responsibilities. Organizing cooperative societies of different sorts, and running them successfully involves leadership of the highest order. From member to president level, how to secure in appropriate measure the required types of responsible and competent personnel is a question which has to be satisfactorily answered if cooperation is to succeed. In the relatively underdeveloped conditions of the countries of South-East Asia the problem is specially acute. The example of India may be studied with advantage as a case in point.

COOPERATIVE LEADERSHIP IN INDIA

It is well-known that in India cooperative organization was introduced by the British Government as an institutional means to help the small cultivator to obtain finance on reasonable terms. Thus policy direction came from foreign officials, but in common with the rest of the administrative structure the main responsibility for organization fell on local officials. In the very nature of things these Indian officials had to work through local non-official people, who came to be called honorary organizers. The primary task of the honorary organiser, who may be described as the first genuinely cooperative leader, was to interpret the opportunities and responsibilities of cooperative association to the farmers who were exhorted to form cooperative societies. This task had to be done individually and in groups. Thus cooperative leadership came to be established in the field of education, and propaganda, before it took on other tasks.

CREDIT SOCIETIES

The earliest cooperatives were small credit societies with unlimited liability of

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members for common debts. Services necessary to run the routine operations of these small societies, sometimes more than one in a village, were supplied by honorary workers. The prevailing illiteracy in rural India put a premium on the mere capacity to attend to records and accounts. As a continuous correspondence with several government offices was involved, and as generally the people were shy of contacts with officials, the really significant portion of cooperative membership tended to play a somewhat passive role. Many of the evils which occasionally crept into the working of village cooperatives were primarily due to this inability of members to make their own active contribution. No doubt the situation varied from place to place, but generally it may be said that the illiteracy among the people, the formalism of governmental administration the dominance of foreign officials and of foreign language made the emergence of genuine cooperative leadership at the basic level very difficult.

DISTRICT LEADERSHIP

At the next higher level, which significantly enough is represented in India by the purely administrative unit called district, leadership, both educative and operative, could come more readily from non-official cooperators. But these non-official elements were mostly from a class of persons who were not themselves interested in the active operations of the members, either in the village or in the market town. They were well-meaning "public workers." Even leaving out of consideration they were by no means unusual intrusion of competing interests such as usurers and traders, the presence and leadership of the urban classes did little to abate the sense of dependence felt by primary rural members and their local leaders. Many among the urban leaders both at the district and State levels, some at least drawn from classes who were accustomed to doing business on a large scale, rendered constructive and selfless service to the cause of genuine cooperative progress. They supplied to the central organizations of cooperatives the prestige and the competence which they otherwise would have lacked. It is no exaggeration to say that in India as between State and State, and even within a State as between district and district, the progress of genuine and effective cooperation has in the past been strictly in proportion to the availability of disinterested and competent leadership from among classes who have achieved leadership in other spheres of action than are strictly relevant to cooperative business.

The opportunities offered to the ordinary members of cooperatives went on gradually increasing. The progress of literacy and growing familiarity with business also helped to widen the scope of active interest and of progressive participation. The advance of democratic participation in other institutions, governmental as well as social and cultural, created a new confidence among all cooperators. By 1921, the era of progressive democratization dawned in India. Not only did the number and variety of cooperative organizations begin to multiply since then, but more and more the comparatively sophisticated members of the agricultural and rural communities started to assume more and more responsible tasks. When after the end of the World War II governmental power came to be exercised by representatives of the people an active effort was made to alter the composition of the boards of directors of central institutions so as to popularize them more completely, and especially to bring in representatives from rural areas. This process has now reached a fairly advanced stage, and at least in some States effective cooperative leadership is being exercised from the village to the State level by

persons whose interest in, and active association with, cooperative business is real and continuous.

On the level of executive authority within cooperative institutions, either of finance or of industry and commerce, the development of professional cooperative leadership is of recent origin. Following the Raiffeisen model as it operated in Germany towards the end of the last century Indian cooperators had learnt in large measure to equate cooperative with honorary management. With the extension of Cooperation in fields where regular, skilled and responsible direction of business is inevitably called for, either because of the size or of complexity of business, the honorary management principle became inappropriate, and it served to prolong conditions of mismanagement and of inefficient management, which almost became proverbial. Recently, however, a welcome change has come over the policy of cooperative organization. Here again experience in the rest of the economy and in political and social life has been a help. People have come to realize that cooperation can and ought to be good business, and, therefore, appropriate provision must be made for the efficient discharge of all functions which are inseparable from organizing a business. Along with an insistence on the *cooperative*, that is mutual, character of business and on effective self-direction by the members themselves, the functional operations of all cooperative activity are conforming to standards appropriate to the conduct of any modern and progressive organization. Cooperative education carried out at all levels from top ranking ministers to humble members of village societies has helped to inaugurate this change. Some of the cooperative organizations in the country would now compare favourably with similar organizations in private industry in India, and they would not lose by comparison with similar organizations elsewhere. Combining cooperative zeal with capacity for democratic and efficient management is not easy of achievement. But as in several other countries, in India also this is being progressively accomplished.

Japan, of course, is even more convincing a case of successful cooperative leadership than India. But even in other countries of the region, in keeping with general social and economic progress, standards of achievement in the cooperative sphere are also rising. Certain compulsions of the welfare State are bringing cooperative organization to the very centre of national and international democracy. To take a couple of examples from India again, the conflict of interests and paralysis of action developing from a purely free and competitive economy were frequently witnessed in the industries of the nation. The grower of raw materials such as sugarcane, the seasonal workers employed in factories, and the capitalist enterprisers not only cared solely for their own immediate interests, but they also had to depend entirely on their own resources. A continuous conflict and a general weakening of effort were the result. When, however, the decision was taken that future growth of sugar factories would be in the cooperative sector, that these Cooperatives will be formed by cane-growers, and that workers employed in these factories will by preference be drawn from local population and will have a special status, not only was conflict minimized but the combined results of an all-round collaboration were most favourable to national as well as to local progress. The promotion and organization of this effort have given an opportunity to thousands of persons to learn new jobs, and to initiate and direct progressive business.

NEED FOR PROGRESS IN COOPERATION

This by no means exhausts the need and possibility of progress. The entire field of Consumer Cooperation yet awaits the efforts of pioneers and leaders. Not only in respect of sugar, but in respect of almost all consumer goods and of some producer goods as well, the lack of institutional agencies of efficient and equitable distribution has frequently caused most deplorable manifestations of anti-social behaviour on the part of established agencies. Even to give to these latter the requisite toning up of social purpose and professional rectitude it is essential that Consumer Cooperative Movement should be organized, especially in urban areas, in the same comprehensive manner in which the credit movement is organized in rural areas. This field awaits the efforts of cooperative leaders of India almost at all levels. They are aware of the challenge, and one hopes that with determination on their part, and with the assistance of better endowed and more experienced friends elsewhere, a substantial progress in this field would be registered in the next few years. In all other countries of the region there are comparable achievements and comparable challenges. But the confidence and skill gathered from experience all these nations are marching forward towards cooperative progress. In all walks of life a distinctive dimension is being supplied by cooperative leadership.

At bottom all such progress is conditioned by cooperative education in the widest sense of the term. In the act of joining a cooperative an individual member makes himself responsible for following certain essential principles of cooperative association, and for so conducting his professional activities as a member as not to endanger either his own, or his collaborators' and the communities' best interests. It is, therefore, imperative that all primary members of cooperatives should be suitably educated cooperatively and professionally, before they join a cooperative. At any rate, this educative process should be completed before membership is confirmed. For higher levels of cooperative functioning appropriate schemes of training must be devised, and they must be scrupulously carried out. There is nothing inherently effective or beneficent in the mere form of cooperative organization. Many cooperatives so called are bad cooperatively, as well as professionally. A conscious and continuous effort to preserve and promote high standards of cooperative action is an essential part of Cooperation. The national cooperative movement of each country and the international organization of cooperators must combine so as to make Cooperation a significant part of the massive change towards modernization which is taking place in hitherto undeveloped parts of the world. No higher purpose can be indicated for cooperative education than the creation of adequate leadership to guide the destinies of the new institutions which are being set up in the cooperative sectors of all the newer democracies.

Part II(a)

Cooperative Principles

I HOPE members of this Congress will not accuse me of indulging in an exaggeration if I state that the Report of the Commission on Cooperative Principles ranks among the most important topics which have been presented before them. This is by no means the first time when the Congress is seized of this subject. Nearly thirty years ago, at its Paris meeting, the Congress considered and recorded the report of a special committee which had enumerated seven principles as constituting the Rochdale system, and had arranged them into two groups, one containing four, which were declared to be of greater importance in judging the cooperative character of an association, than the other three, which were put into a separate group.

Since then, many members of the Congress seem to have felt that this report, valuable as it was, did not help them to meet all the new situations and problems which confront cooperative movements, especially movements in developing countries, and in countries which have adopted the socio-economic pattern of planning. As most of you are aware, the subject was widely discussed at the last meeting of this Congress. A resolution which was then passed by an overwhelming majority, requested the Central Committee, "to constitute an authoritative commission to formulate the fundamental principles of activity of cooperation under modern conditions." The Resolution went on to suggest that the Commission be empowered to study the principles of the Rochdale Pioneers, and to find out which of them need to be modified or substituted. The Resolution also specifically sought to empower the Commission to formulate new Principles of Cooperative Activity.

The Central Committee of the ICA, which a year later constituted the Commission as desired by the Congress, defined the Commission's task in more specific terms. Recognizing, perhaps, that Principles of Rochdale Pioneers taken as a whole are a somewhat wide field of study, the Committee pointedly asked the Commission, "to ascertain how far the Principles of Rochdale— as defined by the ICA Congress at Paris in 1937— are observed today and the reasons for any non-observance." Obviously the Central Committee had in view the Principles as stated in the special committee's report which

Text of a speech delivered by Professor D.G. Karve, President, ICA Commission on Cooperative Principles, at the Twenty-Third Congress of the International Cooperative Alliance held in Vienna, September 5 to 8, 1966.

was discussed and recorded at the Congress. The Central Committee further asked the Commission to consider, in the light of its study, whether the Rochdale Principles, so defined and stated, meet the needs of the cooperative movement, having regard to the present-day economic, social and political situation, or whether any of the principles should be reformulated in order better to contribute to the fulfilment of the aims and tasks of the Cooperative Movement in its different branches.

This clearer formulation of its task helped the Commission very considerably. Without in any way restricting the scope of its work as outlined in the Resolution of the Congress, the Resolution of the Central Committee brought into relief the presentation of the Rochdale Principles in the Report discussed by the Congress in 1937, and the need to examine their relevance and adequacy towards the fulfilment of the aims and tasks of the Cooperative Movement, having regard to the present-day economic, social and political situation. Between the Paris Congress of 1937, and the one at Bournemouth in 1963, many winds had blown through the countries of the world and across its skies. The World War II had given rise to a One World consciousness, and to a world system from which cooperators could not keep aloof, even if they wanted to do so. In fact, cooperation was making rapid progress in new fields and in new lands. When cooperators from all these backgrounds of experience, facing a host of new problems, gathered in ever increasing numbers in the International Congress, they were bound to feel impressed by the challenging character of the changing scene, and by the urgent need to study the whole subject of the philosophy, theory and practice of cooperation in retrospect and prospect.

In all humility, may I assure you that the Commission spared no pains to benefit to the full both by the freedom and by the guidance given to it. It put itself into touch with all the national cooperative movements— some of which are not even members of the ICA at present — and with a number of individuals having special experience of cooperation under varying conditions. It may interest members of this Congress to know that from the mass of material, written and oral, received by the Commission, three things emerged very clearly : First, all cooperators, everywhere, concurred in the basic philosophy, or aims, of cooperation as formulated by Rochdale Pioneers, viz. creation of a cooperative working community in which all men have an equal status, and in which no one benefits at the cost of another; secondly, all of them entertained the highest regard for the rules and methods of Rochdale, which they try to follow to the greatest possible extent; and thirdly, all of them have found it necessary, in some respect or other, to recast one or more of these rules and practices, so as to enable them to realize more fully the aims of the Cooperative Movement in their own peculiar circumstances. In fact, the Commission found that these cooperative bodies, which were unwilling or slow to adapt themselves to the requirements of the new situation, have suffered avoidable set-backs.

The significance of such unanimous and universal experience could not be lost on any objective student of cooperation. All cooperators follow the same ideal of a free and equitable society; all of them subscribe to some features of their organization as almost axiomatic; and all of them feel called upon, and normally consider themselves free, to regulate the methods of their activity by the requirements of efficient and successful operation. Probing back to the very establishment of the Rochdale Pioneers one can clearly discern that whereas the aims and ideals of the Pioneers were revolu-

tionary—creation of a harmonious in place of a trafficking human community—many of the rules and methods of their functioning were clearly evolutionary. Certain features of their organization and methods were inherent in the ideal which they followed. In that sense they were fundamental truths, more popularly called principles. But some features of organization and practice were evolutionary, changeful. They were true or valid in one context but not in another. They also were truths, but relative truths, not absolute truths—i.e. not truths, independent of time and place.

Circumstances in which principles are to be practised are variable; and this affects the correct formulation of even those principles which are generally accepted as fundamental truths by cooperators. In other words, judgments and expressions which in their very nature are conditioned by changeful environments do not lend themselves to what may be termed the making or coining of a formula. Having been asked to reformulate cooperative principles, if they felt called upon to do so, the Commission came to the conclusion that its formulations cannot be formulas. They must be attempts at exact, and at the same time comprehensive and adequate, statement of the nature and extent of the truth underlying each formulation. True cooperative principles must be true in both senses: first, they must be appropriate ways leading to the common goal of cooperators; and secondly, they must explain, as fully as is necessary and possible, all the implications of their justification and results. This means a substitution of formulas by exact and adequate statements. The Commission, both in the body of its report, and in the summary of its findings — which figures as a resolution before you today— has presented carefully-phrased formulations which are no more verbose than necessary, but which, we hope, do not leave out any of the essential implications of each statement.

To take the several enumerated principles one after another, we may begin with membership. While like other organizations cooperatives strive for material success, their special claim on the support of their fellowmen is much wider than that. They claim to achieve material well-being of their members by a morally and socially superior method. It is obvious that there can be no moral value in any behaviour which is not voluntary. It is, therefore, almost axiomatic that membership of a cooperative must be voluntary. On the other hand, as cooperatives are formed for the purpose of mutual aid any artificial restrictions on admission of members would amount to an oligarchic discrimination which would not be in keeping with cooperative principle. It need hardly be added that restrictions arising out of the natural and obvious needs of efficient and economical management would not be treated as artificial.

While, therefore, it is obvious in the case of a primary society that its membership should be voluntary, and available to all eligible persons, without any artificial restrictions some special cases both of primary and secondary, or intermediate, societies would deserve notice. As mutual aid, and not trafficking for profits, is the basic characteristic of cooperation, it should be clear that persons or associations who desire to join, or to form, a cooperative for dealing in commodities or services other than those needed or produced by themselves or by their members cannot be said to act as constituents of the Cooperative Movement. It is not intended to say that there is anything wrong in their doing so, but those who are not basically wedded to the doctrine of non-profitteering economic activity, cannot, by an act of cooperating among themselves for a specific intermediate purpose, be said to promote the aims of the Cooperative Movement.

The same would be true of any cooperative formed by governmental bodies. They are basically tax-gathering and authority-wielding bodies. They may legitimately use the cooperative method for some of their purposes, but they cannot thereby be said to promote the aims or ideals of the Cooperative Movement.

We might also take note of the fact that in the highly dynamic world in which we are living, cooperative bodies may be required to join, in the interest of their members, and for specific purposes which they cannot achieve by their independent effort, some other-than-cooperative associations. Howsoever natural, or advantageous, these mixed bodies may be, there should be no attempt made to describe or accept them as constituents of the Cooperative Movement.

As regards organization of cooperative associations as democratic bodies, the affairs of cooperatives should be administered by persons elected or appointed in a manner agreed to by the members and accountable to them. It is needless to say that no other system would conform to cooperative principle. The equality of status among members of a cooperative is naturally represented by the arrangement of conferring one vote on each member in a primary society. In the interest of efficient and economic management of secondary organizations it may be naturally suitable to adapt this arrangement in a variety of ways, e.g. treating each member-institution as entitled to equal vote, or treating each individual member of a member-institution as entitled to equal vote, or giving more votes to larger societies up to some extent, or by drawing upon the business contributed by a member-institution as a balancing factor. These and similar variations in the organization of secondary bodies must be treated as variable features involving no conflict with the basic principle of equality and democratic management. Similar adaptation in the form of management through elected bodies and professional staff are as inevitable in cooperative democracy, as in other democratic bodies. Maximum amount of decentralization, member participation and member education ought, however, to characterize cooperative democracy in a much more pronounced manner than is, perhaps, possible or necessary in other democratic bodies.

Cooperatives are users organizations for mutual service. Hence, any capital owned or employed by them is only an instrument of production. It has to be hired at its market value, i.e. the current rate of interest. Different types of borrowing have appropriate rates of interest. Share capital, in so far as it is used in the business of a cooperative, would be entitled to its appropriate rate of interest, though this would not preclude any society from keeping its share-capital at a low figure or paying no interest at all on it. The only cooperative value involved is that capital in any form used by a cooperative should not have a remuneration higher than an appropriate rate of interest; and that where unequal shares are held the right of participation in the control of the cooperative should not be weighted in favour of those who hold more shares.

Once it is made clear that capital is not entitled to anything more than interest, any surplus or saving, which would emerge after due provision is made for all cost items and for business reserves which are parts of the balance sheet, should be returned to the members in proportion to the contribution which they have made towards its creation by the business which they brought to the society. A cooperative cannot make a net "profit" at the cost of its members, nor can it adopt an arrangement which enables any one of its members to benefit at the cost of another. But as members of a democratic body it should be open to the members themselves to decide how the surplus or saving

which belongs to them should be distributed : either by the traditional method of distribution, in proportion to transactions; or by utilization for development of the business of the cooperative; or by providing common services. Choice among these different ways made by the free decision of members would be perfectly compatible with the aims of the Cooperative Movement.

I may take this opportunity to refer to a matter which has occasionally exercised the minds of some cooperators when they refer to the undistributed savings or reserves of a cooperative enterprise. If it is clearly understood that undistributed reserves are the result of a deliberate and voluntary act of immediate self-denial on the part of members, there should be no moral or legal inhibition against the distribution of these reserves among members at any later date. Cooperative business is becoming so complicated and massive that both for financial and tax reasons all kinds of earmarked, general and contingent funds and reserves have to be created. There is no general principle involved in debarring members for all time from having a share of these reserves. Even in the exceptional event of a dissolution, it would hardly be tenable to urge that the reserves do not belong to the corporate body of members — past and present. It is not beyond the ingenuity of managers and accountants to find a way by which in any scheme of distribution either of whole or of part of the residuary surplus no member, past or present, benefits at the cost of another. On the other hand, it would also be natural in many cases for members to feel that the best use of the undistributed reserves after dissolution would be to aid in the strengthening of the cooperative movement as a whole. Making a choice from among these several ways is a matter which must be left to the decision of members, subject to the rules of their own organization, and to the general law of the land.

On one subject, that of education, the Commission has felt compelled to emphasize that all cooperative societies should make provision for the education of their members, officers and employees and of the general public, in the principles and techniques of cooperation, both economic and democratic. I have noticed that the use of the word “provision” has created some misunderstanding in the course of translation into some languages. By “provision” in this context is meant no more than “making suitable arrangements” and not necessarily or exclusively “financial allotment”. It should be observed that what manner or size of provision could or should be made by each cooperative, considering its own resources, has been left to the decision of the cooperatives themselves. But if it is realized that what the cooperators are trying to build is not only a business, but a faith and a way of living, which has to justify and establish itself in competition with other ways, e.g. the purely capitalist or the purely authoritarian, the temptation to look upon education as a secondary matter, dependent on surplus finances or on actual business need will, I hope, vanish. In fact it is becoming increasingly clear in the opulent societies that there is not much of an economic, or even associative, benefit which a cooperative gives, that cannot be matched by other even more aggressive and attractive ways of doing business. If cooperation is to survive and progress, as business and as way of life, every cooperative, in the measure and in the manner in which it would be appropriate and possible for it to do so, must make provision for cooperative education of its members, of its staff and of the general public. Even the professional needs of education of all concerned with cooperatives continue to be a compelling one both in developed and in developing countries.

The Special Committee of 1937 had held that observance of cooperative principles does not depend on the adoption of the following three principles of the Rochdale system: Promotion of Education, Cash Trading and Political and Religious Neutrality. For reasons already mentioned, we felt that cooperative education must be treated as a necessary concern of cooperatives. As regards Cash Trading, while it is obvious that in its crude form it has lost much of its relevance, the positive value of adopting, at all times, only such trade practices, as are both economically and socially sound, remains unchanged. So also while it can be easily agreed that cooperatives cannot, in fact they ought not to, remain indifferent in all circumstances to matters of political, religious or similar far-reaching importance, the general lines along which cooperative action in these spheres should be guided must be clearly understood. Choice of action in both these respects — i.e. sound business practices and appropriate public policy — must be left to the free decision of each cooperative institution. The Commission has discussed the underlying issues in some detail in the relevant part of its report. A careful perusal of the sections on Politics and Religion, and Business Practices, may help cooperators to ensure that any course of action, or of inaction, adopted by them does not offend against any of the ideals, and principles, of cooperation.

In one very important respect the Commission felt called upon to act on the freedom given to it and to suggest the formulation of a new principle. The rallying call of the cooperative movement, "one for all, and all for one", was not intended to be confined to the members of a single cooperative. It is a call to which all cooperators in all institutions and in all countries must spontaneously and unreservedly respond. The process of concentration and common action is gathering momentum in other forms of organization. The need and the opportunity for whole-hearted, progressive and joint action among cooperators was never so great as at the present moment. A new Industrial Revolution of unprecedented magnitude and potentiality is sweeping over the world. National, regional and world bodies are being set up by private business, as well as by governments. If the cooperatives do not act without loss of time in support of their cause, singly and in combination, they may soon be swamped by the new forces of giant units, in the public and private sectors. Cooperation among cooperatives, almost as an instinctive and compelling action, must henceforward be treated as an essential and indispensable course of action on the part of each cooperative.

I do not think that I shall be justified in taking up any more of your time. As Article I of the ICA Rules mentioned: the ICA in continuation of the work of Rochdale Pioneers seeks to substitute for the profit-making regime, a cooperative system organized in the interest of the whole community and based upon mutual self-help. Like the Rochdale Pioneers, all of us have to be pioneers in our own way, trying to recreate and spread our faith in the ideal of cooperation, and devising appropriate methods to enable us to overcome all obstacles in our way, so that we may successfully face the competition of alternative faiths which are trying to build gigantic international combines in support of their own interests. Nothing short of an immediate world-wide movement among cooperators in support of the Rochdale ideals, repeated in the ICA covenant, is the need of the hour. The reformulations and rearrangements of cooperative principles suggested by the Commission constitute an invitation and an aid to the cooperators of all nations to achieve this supreme task which now devolves on them as heirs to the great Rochdale tradition.

Revision of Cooperative Principles: Background and Substance of the Commission's Report

IT GIVES me great pleasure to be with so select and so representative a gathering of cooperators. The subject on which I am asked to speak is one of those which has been in the thoughts of cooperators of all countries for quite some time. And if at the recent session of the International Cooperative Congress, a certain consensus of agreement has been arrived at with regard to the principles of cooperation, it ought to be a matter of some satisfaction and of considerable interest to all of you. I, therefore, thought that I might utilize this opportunity so kindly offered to me to present to you the whole subject in its proper perspective.

The Commission was asked, among other things, to consider whether any of the Rochdale Principles should be reformulated in order better to contribute to the fulfilment of the aims and tasks of the cooperative movement. The Commission naturally had to make up its mind as to what is involved in the term "principles"; because if you misunderstand the terms of reference, not unlikely you come up with somewhat inadequate recommendations. We thought it necessary to be clear in our minds as to how principles were to be distinguished from two extremes. At one end are found things which have some importance in successful cooperative activity but which, obviously, are not so basic as to be styled principles, and at another end are the high ideals of the cooperative movement which inspire all cooperative activity.

The Rochdale Pioneers, oldest among cooperative institutions which have continued to do successful business to the present-day, clearly embodied their own objectives in a manifesto. Initially, the membership of the Rochdale Society was very small, hardly a score. But they had high idealism. Their ideal was gradually to transform human society into a community of workers, instead of a bargaining association between capitalists and workers. They aspired to build a community of workers on the

Speech delivered during a Symposium on Cooperative Principles held in Manila, the Philippines, on October 25, 1966.

basis of a harmonious relationship of equal status among all its members, irrespective of the financial resources that they may have. As members of society, all human beings should rank as equals. The creation of an equalitarian, harmonious and just society was the objective of the Rochdale Pioneers, and it has continued to be the objective and the ideal of cooperators around the world. Quite obviously, this ideal or ultimate objective is much more important and exalted than a principle of routine cooperative activity. It rests on a pedestal of its own. We follow it as we follow a star in the heavens.

Then at the other end, you have some important things which at a particular time and place appear to be very important, so important in fact as to call forth binding obedience on the part of those who conduct a given cooperative activity. The Rochdale Pioneers stipulated that business should be done strictly on a cash basis. They bought for cash; they sold for cash. No other manner of adjusting obligations was permitted. This, of course, must have appeared to be very important when the Rochdale Society was established. But by no stretch of imagination can one read into their insistence on cash transactions, such a logical and unbreakable link with their ideal of establishing an equalitarian and just society, as to lead one to look upon the two desiderata as being on equal level. Cash trading in the particular environment which confronted the Rochdale Pioneers was obviously very important. It was one of the practices which they thought should be so invariably followed in their own context that it should be made an inviolable rule. But every operational rule of a cooperative society, important though it may be for the particular society at a particular time, does not automatically become so important as to merit the description of "principle."

We had, therefore, to exclude the ideal because it was too high and it was so ingrained in the whole activity of a cooperative that we could not lower it to the level of being only one of several principles of organization. On the other hand, things like cash trading, considered in given context very desirable trade practices, had also to be excluded as not demonstrably essential to the attainment of cooperative objectives.

In between the two extremes of an ideal of the cooperative movement and a recommended trade practice, we had to define for ourselves what a principle of cooperative activity stands for. Principle, as we understood it, is a way of organizing and conducting cooperative activity which is an inherent and indispensable corollary of the ideal or the objective itself.

Taking another example from the Rochdale Pioneers themselves, they had provided that the affairs of the Rochdale Pioneers society would be conducted in a democratic way. Each person, who is a member, irrespective of his social or financial status, will have an equal vote in conducting the affairs of the society. This provision we recognized as a principle, because we cannot think of any other variant of this arrangement which will still lead to the establishment of an equalitarian and just society, in which the dignity of an individual member is recognized as being on equal footing with that of all other members.

We thus made up our minds that some things are an ideal, an incontrovertible goal, towards which all cooperatives aspire to move, and some things are currently prescribed practices, and that in between, there are some things so essential to the organization and functioning of a cooperative that without them the ideal itself will be endangered. These last we accepted as principles.

At the Bournemouth Congress held in 1963, a resolution was passed inviting the Central Committee of the International Cooperative Alliance to set up a Commission. Why in 1963? Why not earlier? What was the occasion for it? It is very interesting to seek answers to these questions, because it is only against that background that the work of the Commission and its modified enunciation of the cooperative principles become meaningful.

The Rochdale Pioneers, when they formed an association in 1844, were too much in the initial stage of their own activities to think about themselves in the glorified terms in which we look back to them. They could hardly have thought of enunciating any permanent provisions as Rochdale Principles. They were people who knew where they wanted to go; they knew what were their contemporary conditions and they were improvising what they thought were suitable ways to change those conditions and to realize a future which would satisfy their aspirations for a just and harmonious living.

The Rochdale Pioneers Society was not the first cooperative institution that was established, but it was the first successful cooperative institution which has survived to this day, and which has served as a source of inspiration to numerous other institutions. There were a number of cooperative associations known by different names which were established before the Rochdale Pioneers Society was established, but they did not succeed. The Rochdale Pioneers continued to attract more people. It conducted its business in an exemplary fashion both as a social unit and an economic unit. It inspired hope among other people similarly situated. It was because of these outstanding merits that gradually, social reformers and social historians, people for instance like Mr Holyoake, began to study and assess what they considered to be characteristic features of the Rochdale Pioneers. It was the judgment of reformers and historians that some particular features of the functioning of Rochdale Pioneers were an essential part in their scheme of good work which must be followed if other people want to achieve the same results.

For a long time, as usually happens in regard to new social philosophies, everybody interested in cooperation paid tribute to what the social historians described as Rochdale Principles. At the same time, however, as everybody had a different environment and a different complex of personnel and resources both within Great Britain and in other countries, they went on modifying some of the practices to suit their own conditions.

The circumstances which imperceptibly and inevitably led to this practical reformulation of some of the practices and principles of the Rochdale Pioneers were quite obvious. For instance, take a simple thing: where there were only 20 members among the Rochdale Pioneers who were running a consumer store, for them to say "Come one, come all, membership is open to everybody" was quite the right thing to say. The more of their own fraternity, the more of their own neighbours joined them, the more easily they could do better business. But if for instance you already have a consumer society of say 200 members, or 20,000 or sometimes even more than 20,000, a society which would like to be sure how far it can go on expanding, whether it may not be more manageable and more economical to start another society.

So also with such a simple thing as honorary service. A consumer store of 20 members selling the essentials of domestic life could hardly hope to employ a manager and an accountant who would be full-time employees. On the other hand, certainly

you could not run a cooperative store even of 2,000 without engaging some staff. It is easy to recognize that these are inevitable modifications.

When the International Cooperative Alliance was established in 1895, all these facts and trends were known. It was not as though everybody who joined the International Cooperative Alliance had ever considered it either desirable or possible that everything that was done by the Rochdale Pioneers in the year 1844 must continue to be done by all its members in the year 1895. It would have been very strange for them to entertain any such ideas. Everybody knew that consistent with the cooperative ideal, and for its very success, these, and such other modifications, are inevitable. The critical question to be considered was whether in making what appeared to be necessary adjustments, something is done which takes you not towards but away from the ideals of cooperation. In spite of several modifications of the Rochdale pattern, people felt that they were worshipping in the same faith of an equalitarian, non-profiteering and just society which was preached for all humanity by the Rochdale Pioneers.

In the meanwhile, cooperation travelled, not only across the Atlantic but also across the English Channel, which in certain respects is even a wider gulf dividing people of different cultures and traditions. More recently, cooperation has travelled further beyond. Asia and Africa among the old, and Australia and New Zealand among the new continents, have adopted and developed cooperative forms of their own. Rules and norms relevant to the conduct of consumer stores had little relevance to their major needs.

For instance, a poor villager in a predominantly agricultural country like India has such simple habits and so much of what he needs is raised in his own farm that the very notion of a consumer store would be beyond his comprehension. Domestic purchases are not a part of his continuing routine of life. The important activity in respect of which conditions similar to those which had operated in the Rochdale Pioneers' own experience had developed in the life of an Indian peasant is that of finding the means to till his field and to sell its products. The Rochdale Pioneers were in revolt against continued social injustice under a system of doing business, in which without anybody committing an illegal or even a socially unpopular act, in actual fact some people are enriched at the cost of some others by being in a position to charge far more for their services and goods than is justified by the cost or effort of supplying them.

It was this situation described as the truck system which had led to the establishment of the Rochdale Pioneers Society. The Rochdale Society had to operate against the background of the British Factory system in the early days of the Industrial Revolution. A comparable background was often witnessed, in other countries, in agriculture, or in small artisan business. In India, farmers felt the squeeze of the moneylender and the trader. To a large extent, similar was the case in Germany where Raiffeisen had earlier promoted the establishment of agricultural cooperatives. It was in Germany again that Schulze-Delitzsch initiated the formation of a special type of artisans' societies. It was inevitable that the societies so formed should show special characteristics of their own.

In the earlier years of the British Industrial Revolution, there was great social callousness and the government did not take much notice of the social evils which were engendered by the factory system. It was natural in these circumstances that those who started new organizations for self-protection, should feel some hesitation in aligning

themselves with other discordant elements or with government. The society at large and the government looked upon any combination of association among the socially oppressed sections with suspicions and fear. When the Rochdale Pioneers Society was established, workers could not form a trade union. The fact that their membership was primarily a working class membership was, however, significant.

The employers, financiers and government would naturally take a cautious, if not a hostile, view of such a cooperative society. They would suspect that what the workers could not do by way of a union because that would be against the law, they would try to do by forming a cooperative society. The social and political atmosphere in which the Rochdale Society was formed, was peculiar to the circumstances of contemporary English life.

Between the cooperative units on the one hand and the rest of the society, there was a good deal of coolness, if not animosity. In several other countries which adopted cooperation after the experience of the Industrial Revolution in Great Britain had already been gathered, both society and governments, including some of the kingly governments, welcomed cooperation as a desirable policy. They recognized that farmers and artisans are among the poorer sections of the community, and government, the church and other social institutions must do all they can to help them. Therefore, the attitude of the church, the state and several other social institutions was not basically hostile to the formation of cooperative institutions. They actually promoted the establishment of cooperatives, as for instance in many countries of Africa. In India, in 1904, the then British Government of the country passed a law for the legal registration of cooperative societies. Under that law, in each province of the country, a high level officer, called the Registrar of Cooperative Societies, was appointed. This officer went in practice much beyond registration. He actively helped the cooperative education of farmers and the regular working of societies through their elected office-bearers. Thus in a variety of ways, the background and practice of cooperation in Rochdale underwent changes which could not have been foreseen in Rochdale.

Till after the World War I, there was, to my knowledge, no pressure from any source for classifying cooperative movements as genuine and non-genuine. All over the world — in Great Britain, on the Continent, in America and in the rest of the world, much of which was colonial territory — several varieties of cooperative activity were going on in their natural environments, doing what good they could. Towards the end of the World War I, an epoch-making event, namely the Russian Revolution, took place. The Russian Revolution, after a long period of transition, marked by events which it is unnecessary at this distance of time to recount, led to the establishment of various new types of society. Somewhat unexpectedly for many people, both in Russia and outside, cooperative organization found a place in two spheres of socialist life. One sphere was distribution of consumable goods, where the government itself was prepared to undertake responsibility for distribution, but it was also ready to share it with cooperatives of consumers.

The consumer cooperative movement in Russia, because of the outlook of the new rules, found it possible to reorganize and develop into an almost nationwide organization. The other, and somewhat more controversial sphere of cooperative activity to socialist states, was cooperative farming. Thus, under an altogether new type of society, there still survived or, let us say, revived, something which was cooperative

activity. Russian cooperators welcomed this trend as they considered that cooperative activity was a better way than state activity, as they had earlier held that cooperative activity was better than private capitalist business. At its best governmental distribution would not be so satisfying a thing as it would be if consumers in each neighbourhood, each village, each city, were to form themselves into a consumer cooperative group. The Russian cooperative movement was a member of the International Cooperative Alliance long before 1917; and after the Revolution also, they maintained the continuity of their own national organization. Therefore, the membership of the Russian cooperative movement in the international cooperative association was continued more or less as a normal occurrence.

In some other socialist countries, the period of cooperative transition was not so easy. Some of them were either not members of the ICA at all, or if they were members of the ICA earlier, there had been such a big gap between their earlier membership and the setting up of their new organizations that their membership was discontinued. Until very recently, they were not admitted to membership.

Gradually, during the inter-war years, a new controversy arose within the International Cooperative Alliance. The origin of the controversy was that some of the older cooperative movements strongly disapproved of the principles of social organization in Russia and other Communist countries. They believed that their own society namely, capitalist society, is so very different from the principles of socialism that they would not like to be associated on equal terms with the so-called cooperative movement of the latter type. They felt that the field of free activity which cooperatives in socialist countries enjoyed was very limited, and that even in that field they were under the domination of government. They would, therefore, have preferred to send out existing members from socialist countries. In any case, they were not going to admit new ones. Some sharpness was imparted to these feelings on account of some inconvenient and unpalatable debates which socialist members occasionally brought up.

While these bickerings were going on, the Great Depression engulfed the whole world. The Great Depression did not distinguish between Communist and non-Communist countries. Some of the capitalist governments such as that of the United States, were confronted almost overnight with the colossal problem of unemployment which affected all segments of society, especially in the rural areas. They, therefore, found that if the consumers in the city and the farmers in the villages were to be helped to help themselves, this could be democratically and effectively done only by forming them into cooperative societies.

During the Depression, the US Government took active steps to promote credit associations of farmers on a cooperative basis. These associations were helped with financial assistance in a variety of ways, and definite directives of policy in the use of these resources were given. As the Depression lifted and prices of farm products rose, the producer associations repaid government's finance, and regained the autonomy which is claimed as a characteristic of cooperatives. In other countries and at other times, similar assistance under similar conditions has been given to cooperative enterprise by governmental and semi-governmental bodies. In doing so, neither government nor cooperators had a feeling that they were doing anything in contravention of cooperative principle. In fact, they recognized that without such assistance, cooperative enterprise

would not come into being, and if it did, it would not survive in competition with other powerful factors.

After the New Deal and its counterparts had become an accepted part of the social and economic policy of modern states, socialist as well as non-socialist, it was difficult to build any cooperative classification on the basis of aloofness from government. In fact, as a result of changing economic and social policies in capitalist countries and on account of comparatively more stable forms of cooperation emerging in socialist countries, the discussion about essentials of true and genuine cooperation assumed a new direction.

Recognizing that a major difference of opinion as to the applicability of Rochdale Principles to more recent conditions existed among its members, the ICA had proceeded to appoint a Special Committee to enquire into the facts, especially in their application to consumer societies. The first report of the Special Committee referring to this more restricted field was presented at the London Congress of the ICA in 1934. The Report, as was perhaps natural, had left out of consideration many other forms, such as, wholesale societies, producer societies of workers and agriculturists, credit societies and co-operative banks. Representatives of these types of societies received the report in no friendly spirit, and the Congress eventually decided to adjourn its decision until the work of the committee had been completed. The second or the revised and completed report of the committee was presented at the ICA Congress at Paris in 1937.

That report stated that the Rochdale system consists of seven important features or principles. Of the seven principles, four are in one class. They are essential principles. There is another class, in a sense below the line, a class of three principles which also are part of the Rochdale system. In that sense, they are also Rochdale principles; but they are not so essential, not so important as the first four principles.

The first or prior class of the Rochdale principles consisted, as I said, of four, and the committee described these four principles in the following words: one, *open membership*. Then two, *democratic control*. They did not stop there; they went on to say democratic control, i.e. *one man, one vote*; that is number two. Number three is: *distribution of surplus in proportion to members' transactions*; and four: *limited interest on capital*. These four were the essential principles of the Rochdale system. The less essential principles were the following: these were three: No. 1, *political and religious neutrality*; No. 2, *cash trading*; and No. 3, *promotion of education*. All these three are important, but not essential. A cooperative association may be accepted as genuine even if it does not follow any of these three non-essential principles.

It does not require much imagination to see why the moment the Congress received this report, there was almost a universal shaking of heads, more horizontally than vertically. The Congress failed to obtain either enlightenment or guidance. Almost each one of the committee's statement of principle raises a question, in some cases more than one question.

Open membership: Now take a cooperative housing society. Even if it is a consumer society: by then we had not only consumer societies in small areas, but consumer societies in big areas too. There were other societies like insurance societies, financing societies etc. Of course, nobody would arbitrarily keep people out. But, depending on the optimum size of the business, almost every society would desire to limit its membership at some point. The committee's report failed to give any guidance

in such situations. To tell concerned people simply that membership should be open, was not helpful enough. So naturally, they shook their heads in continued doubt.

So also in regard to No. 2, democratic control (one man, one vote). I freely admit that this provision is inherent in the ideal of cooperation. But merely stating this is not enough. There is the whole class of what we call secondary societies, e.g. marketing societies, processing societies, federations of all kinds. In the constitution of federations, if we were to decide that one person should have one vote, the question arises : who is the relevant person ? Is it the person of a member of the primary institution ? Or, is it the person of a member of the secondary institution ? Should every member of the constituent primary society have a vote ? Or should a member society of a secondary society have a vote ? In all these things, there was no guidance in the Committee's report to answer relevant questions.

Discussion about cooperative principles is not an abstract, theoretical subject. Such discussion must be conducted in a manner which will help people who have cooperative problems of association, of successful business, of competition with other organizations, and so on, to solve them. True enough, problems have to be solved within the four corners of the cooperative ideal. In doing so, more constructive guidance is needed. The committee's formulation and classification failed to meet this need.

Now, take the third principle : distribution of surplus in proportion to members' transactions. This formulation was perhaps adequate before questions such as building up reserves for meeting ups and downs of industry, and of keeping surplus reserves within the business to strengthen its competitive capacity gathered critical importance. Obviously, this is not a subject on which one can frame a neat little principle which will easily cover all present and future conditions. As a matter of fact, even for using the word "surplus" there was great opposition from the most unexpected quarters. The American movement was largely against the word "surplus". Their argument is that there is never any surplus in cooperative activity. The members just pay what is necessary in cost to make the services available to them. There is never a surplus. There can be savings, they readily admitted. That is to say that which is due to a member, may at his instance be kept with the society as his savings. Thus, there is saving, but there is no surplus. This refinement of cooperative terminology was one of the several interesting things which I learned during the course of my work with the Commission. The problem confronting American cooperatives vis-a-vis the laws of their country is a serious one. Rigidity of terminology or of formulation of correct cooperative behaviour in such matters can be achieved only at the expense of legitimate progress of cooperative activity, and the attainment of cooperative ideal.

Fourthly, there is limited interest on capital. Apparently, this is a most unobjectionable thing. But the question arises : limited to what ? Further, has interest necessarily to be paid ? The formulation itself gives no guidance. This system of describing major truths or major principles of important social and economic activity by catch phrases, e.g. "open membership", "democratic management", "limited interest on capital", has its limitations and pitfalls. It is a good thing for memorization, but not for understanding and guidance.

If you are seeking an adequate answer to the difficulties which the cooperators are facing, you will have to give a sufficiently explanatory formulation. It need not be

prolix, but it must be adequate. This was the decision of the Commission. In enunciating principles, we have not tried to be brief if it involved the risk of being vague or misleading.

For instance, in regard to membership, the Commission has used, even in its summary statement, as many as 40 words to explain what it feels are the essential considerations in regard to membership. There appeared to be some controversy as to what is more characteristic of cooperation: is voluntary membership more characteristic or is open membership more characteristic? Now for those who follow the trend of the ideal set by the Rochdale Pioneers there can be no two answers to that question. Probably both are important; but what is important as an essential corollary of the ideal of equalitarian association is voluntary membership. If anybody can be compelled to be a member of a cooperative, right at the start there is no freedom or democracy. Somebody directs and others obey. Even when a full description of a principal characteristic has been attempted, there could be some doubt. This should be provided for by indicating the lines along which fresh doubts, when they arise, should be resolved. Neither excessive rigidity, nor relegation of a doubtful issue into the background are justified.

The institution of two classes of principles, one important and the other not so important, is not calculated to strengthen respect for either, as truth in both cases is made to appear a measurable quantity. An apocryphal story is told about a small principality in Central Asia. Its ruler had instituted several orders and titles of distinction, and had arranged them in different classes like first, second and third. According to the importance of the person, a higher or lower class of distinction was conferred. Sometimes the same person went on receiving a higher class of the same distinction. The Central Asian state had an Order of Chastity for distinguished women. The good lady of a foreign envoy, at the court of the ruler, had earned the high opinion of the court by several good deeds. It was, therefore, natural that when the distinguished envoy himself received an honour from the ruler, it should be thought appropriate and becoming that some distinction should be conferred on the good lady as well. According to the prevailing standards in the state, the highest virtue in a lady was chastity, and hence to confer the order of chastity upon a lady was regarded as a high distinction. The lady in question, therefore, appropriately was recipient of the Order of Chastity. But as she was only the wife of a foreign envoy, and it was the first time when a distinction was being conferred on her, the class of the order was Third, neither first nor second. When, therefore, the award was announced as Order of Chastity, Third Class, the ruler and his advisers failed to see why. The lady, her husband the envoy and his friends felt very embarrassed. The moral of this story is that for an attribute to be a principle, it has to be essential, and if it is essential—there is no more or less about it—you just cannot do without it. If you judge that in some cases you can do without it, it is more correct to say that it is not essential, it is not a principle. We should try and make the statement of the principle itself as realistic and practical as it is proper. So stated, all principles have equal validity.

That is why the Congress, it seems, did not feel happy about the three principles which in the 1937 report were recorded as non-essential. Take religious and political neutrality. A mere statement that cooperatives may or may not follow religious and political neutrality, gives no direction at all. If, by implication, you intend to say that

in certain circumstances and in some ways, cooperators must be active in public affairs. is it not expected of you that you state your version of such circumstances and ways? This is what the Commission has tried to do. In varying circumstances different ways may be possible and cooperators are entitled to expect some guidance in regard to these from their advisers, so that when a cooperative society or a whole cooperative movement is confronted with a situation they may have the benefit of deep thinking and objective experience.

Another principle listed as non-essential was cash trading. In some of the best shops in Western countries, it is a mark of higher social and economic status to have a "charge account" than to pay cash. If a society which is so different from the one in which the Rochdale Pioneers commenced business that to pay cash is almost a suspicious act, merely to say that cash trading is less important, is not enough. When the Rochdale Pioneers prescribed cash trading for themselves, they were not keen on the word "cash". They were keen on prudence, on thrift. In the present context, there are different ways in which the same goals may be pursued. We should specifically say so.

Among the members of the Commission, we were lucky to have a colleague, Prof. Bonner, who unfortunately is no more. He was not only a devoted student of British Cooperation but he was connected, through one of his ancestors, with a family which figured among the original members of Rochdale Pioneers. He always used to remind us of anything we missed from the good Rochdale model. He drew our pointed attention to an important trait of the Pioneers' business: they claimed always to give pure quality and correct weight. In these days, if the cooperators claim special virtue for pure quality and correct weight, I am afraid that at least some interests other than cooperative will feel awfully offended. Therefore, in things which were once considered so important as to need specific mention, but which later become part of all decent trade, it is better to enunciate the basic virtue and leave its expression to changing circumstances. That is why the Commission has stated that cooperative institutions in all their activities should be characterized by a high sense of moral and social rectitude.

The Rochdale Pioneers were inspired by a desire not only of improving the lot of their own members, but of transforming the whole society into a harmonious and just community of workers. This social idealism is of the essence of cooperation. In no part of their activities howsoever practical and business-like they may be, must cooperators forget this. This is brought out by the Commission in the following statement: when there is scarcely any branch of commercial activity in which cooperatives of one type or another may not now be found, cooperative institutions should be able to justify their existence, not only by the advantages they yield to their members, but also by their sense of responsibility and their high standards of probity in all that they undertake. Even when no mention is made of cash trading and correct weight, the standards of behaviour are fully upheld.

The comparative neglect into which education has been allowed to pass by some cooperative institutions, and even by the special committee of 1937, is apparently inexplicable. The Rochdale Pioneers were blazing a new trail of social reorganization, and they knew that for strengthening their own organization and for spreading their faith in the rest of the community constant emphasis on educating members, as well as non-members, in the aims, principles and practice of cooperation is called for. This urge is inherent in the idealism and the pressing needs of cooperators. To consider

education as optional, or less important, is to jeopardise the success and spread of the cooperative movement.

I would ask you to believe me when I say that this insistence on education on the part of the Commission does not stem from its predominantly academic composition. We had in the Commission, an eminent cooperator, Mr. Howard Cowden, who is also a leader of successful cooperative business. He was then Chairman of the International Cooperative Petroleum Association, which has a number of oil interests both in the United States and in other parts of the world. Mr. Cowden, I may tell you, was no less keen than the rest of us on insisting that cooperative education should be something like an instinctive urge, a law of being, to every cooperative institution. There is a two-fold reason for such insistence, which I shall explain by reference to conditions in India.

Very often, people join a cooperative society either because they get scarce things without much trouble, it being government policy to distribute them through cooperatives, or because they get things cheaper than they get them in the free market, which in conditions of chronic scarcity tends to be the black market, or because they get loans much more easily and much more cheaply than they can get from the private banker or the private money-lender. On the face of it, there is nothing wrong in this. But, the responsibility of cooperative association and management, the self-discipline and the devotion to the purpose of cooperation have rarely been appreciated by the large body of members. Members then tend to be no more than clients of convenience. This unconcern for cooperative values on the part of members leads to all kinds of undesirable things in the management of cooperatives.

This is largely the experience in developing countries, and even in the more advanced countries, there is considerable scope for improving members' appreciation of cooperative values and responsibilities. If the cooperative institutions are to operate with the same degree of devotion to cooperative values which the Rochdale Pioneers gave to their own society, intensive efforts to spread the cooperative creed are called for.

For the satisfactory functioning of the cooperative, as an association and as a business unit, the education of members, of office-bearers and of staff in everything cooperative is absolutely necessary. This education has to be both cooperative and functional. It is equally necessary to educate non-members with a view to turning them into cooperators. Actually, this process has to commence in childhood and, therefore, if the general educational courses in a country do not provide for this, cooperatives should arrange for educating the children of members and non-members as well. Commercial, and sometimes even governmental practices tend to promote "under the counter" procedures which cooperators with their sense of social responsibility are not expected to follow. There is always a risk, therefore, that on account of the lack of appreciation of the special merits of cooperatives, both their members and the general public may develop an undeserved prejudice against them. A purposeful programme of informative and educative service must be undertaken by the appropriate cooperative institutions.

Never was an intensive and purposeful campaign in support of cooperative values and potentialities so urgent as it is at this juncture. A technological, scientific and industrial revolution of massive dimensions has been taking place ever since the end of the World War II. The entire shape of our industrial and social life is undergoing a change. The changes which are likely to take place in the next twenty years, will be immensely

greater than the changes which have come about during the last twenty years. Now, the fateful question for human progress and human culture is : who is going to guide and organize the change ? Is transformation going to be state-sponsored and state-organized ? Or, are the gigantic capitalist corporations going to dominate the coming age ? Are the cooperatives going to be swamped by one or both of these ? Or, are the cooperative movements going to gird their loins and grasp the challenge and the opportunities of their times ? Answers to these questions will depend largely on the cooperators' own efforts to equip themselves for the task. Education in the broadest sense will determine the size and quality of cooperative performance in the new age.

The challenge of the new age is real even for the small farmers in India. Take the new varieties of rice, cotton and wheat which are now available. Take the new fertilizers which are being provided : the new pesticides, the new machines and several other producer aids which will enrich the farming business. If all these opportunities are to be shared by the large body of small independent farmers, it is only through cooperation that they can do so. If the cooperators fail to grasp their opportunities large-sized private enterprises and state farms may monopolize the economic advantages of modern scientific farming.

It has become imperative for cooperatives to take a new look at the tasks and opportunities which devolve on them. They must be not only progressive, but aggressively committed to progress. So long as they keep in the path set by cooperative ideal as proclaimed by Rochdale Pioneers, they must not be deterred by the prospect of having to modify their procedures for the success of their efforts. In elaborating their views on the subject-matter of the several Rochdale Principles and in suggesting certain modifications and changes, the Commission intended no more than to assist progressive cooperators of all lands to be strengthened, not weakened, by their cooperative faith and organization.

It is against this background and approach that I would ask you to receive the recommendations of the Commission as, I am happy to say, they were received at the last session of the Cooperative Congress. The only amendment to the resolution expressing general acceptance of the report which was later incorporated in the resolution itself, was to add the word "racial" to the Commission's recommendation on membership, which as amended ran as follows:

"Membership of a cooperative society should be voluntary and available without artificial restriction on any social, political, racial or religious discrimination, to all persons who can make use of its services, and are willing to accept the responsibilities of membership."

Asserting that membership should be voluntary, and recognizing that certain restrictions are inherent if cooperatives are to succeed in their tasks, guidance is offered as to the lines along which such unavoidable restrictions may be laid.

Our recommendations as regards the reformulation of other Rochdale Principles have also been made in the interest of ensuring greater success of these very principles through more and more efficient and enterprising cooperatives. On democratic management, self-regulation and equal voting among individual members of primary societies have been accepted. But the democratic basis of secondary societies or federations is left to be decided in several appropriate forms to be selected by the primary societies who join to form inter-institutional societies. As regards interest on share capital, it is

made clear that there is no cooperative compulsion to pay interest, but if it is paid, should be limited to an appropriate rate of interest. Some indication is given in the report about different standards of propriety in this respect.

Regarding the distribution of surplus or savings, the main object which the Rochdale Pioneers sought to achieve was the elimination of profit, that is the possibility of one member benefitting at the cost of another. The Commission's formulation of the implied principle explicitly sets this out, and, as in other cases, leaves the choice among several possible and justifiable alternatives to the members of each society. Similarly, while the manner in which the society may promote cooperative education was left to be decided by its own members in keeping with their resources, the cooperators' obligation for spreading a continuing enlightenment about their ideals and methods was not left in doubt. Up to this point, as you will observe, all our recommendations were obviously in the nature of reformulation of what we considered to be the substance of cooperative truth in the several commonly expressed Rochdale Principles.

We have avowedly added one principle which actually states explicitly what is implied in the cooperative ideal itself. The basic idea of cooperation has often been expressed as : one for all and all for one. That exhortation was not intended only for individual members, but also for societies and for cooperative movements. Unless all cooperative organizations, at local, national and international levels, actively cooperate among themselves in every practical way, the best interests of their members and their communities will not be served. With a great future opening before the cooperators, there was special need to emphasize their obligations in this respect through which alone they can successfully grasp all their opportunities.

I would like to conclude my speech by referring to a particularly satisfying experience at the last session of the Congress during the discussion of the main resolution on the report of the Commission. Quite a number of speakers took part in the debate. Many, I should say most, supported the resolution which was carried by a large majority, after two somewhat poorly supported amendments had been defeated. But what has stuck in my memory, what in fact I treasure as a specially appropriate recognition of the merit of the Commission's report, was a speech by Mr Applegate, the present Chairman of the Rochdale Pioneers' Society. As first speaker from the floor, he recognized that a review of the traditional Rochdale Principles was overdue and that the Commission's reformulations and recommendations were as good and satisfactory a review as could be expected at this stage of the progress of cooperatives in the different countries of the world. What better certificate of good performance a Commission on reformulation of Rochdale Principles should have hoped for than the unreserved approbation and support of the Chairman of the Rochdale Pioneers themselves.

Reformulation of Cooperative Principles

FROM Vaikunthbhai's insistence on human dignity was derived his unswerving faith in equality of status for all human beings. All distinctions of caste and class, and of course of colour, were abhorrent to him. The maintenance of an equalitarian social order, along with the successful pursuit of all-sided development, is the need and the challenge of our times. Vaikunthbhai, contrary to certain outward appearances, was no less keen on development, than on equality. In the cooperative form of social organization he found a reconciliation among all the three values on which he had set his heart; human dignity, equality of status, and successful pursuit of all-sided development for all.

Vaikunthbhai was no dreamer and he had enough of hard practical sense to distinguish between hope and performance. But from his own studies and experience he had convinced himself that for the weaker and poorer, many at any rate, there would be no hope of participating in free and progressive living except in purposeful association with their fellowmen on a footing of equality. He did not underrate the difficulties in the way. He recognized them at least as objectively as did the critics of the cooperative movement. Where he felt that the defects in the working of cooperatives were avoidable he openly deplored them. But such defects, which he thought were avoidable, he strove to remove, both by the education of all concerned, and by offering to them adequate and timely assistance in the shape of the necessary means of improvement. Such assistance either individually, or through a bank, or through government, was for him a good social investment. In human terms — economic, political and social — he hoped that such a comprehensive effort at reconstruction on the basis of self-help and mutual aid would lead to the creation of a world where freedom, peace and welfare would have the best chance to survive.

Under Vaikunthbhai's inspiration and leadership cooperation in independent India developed some special traits which were, for the most part, absent from Indian cooperative policy till then. These somewhat special features of Indian approach to cooperation in recent years may be summarized thus. A life of sanctified inequality, conflict and State inaction has sometimes been described as the competitive system of

The lecture delivered at Bombay Gandhi Smarak Nidhi in memory of the late Sri Vaikunth L. Mehta. *The Madras Journal of Cooperation*, July 1967, Vol. LIX, pp. 10-20.

free enterprise. Largely, this was the accepted policy of British Government in India. It was only after India attained independence and adopted Part IV of the Constitution as a solemn declaration of guiding principles of State policy that it was possible, in fact it was necessary, to take a view as to the type of society which we, as citizens of free India, desired to evolve. It was in this context that cooperative leaders could urge that the unregulated, unguided and socially unsupported system of so-called free enterprise should be replaced to the largest possible extent, by a social system in which, while preserving incentives to individual enterprise and effort the association of individuals for a common economic effort would be on a footing of equality free from any form of exploitation. Only cooperative institutions, suitably formed, equipped and organized could conform to these requirements. In the establishment and development of cooperative institutions along right lines the whole community, therefore, has a vital interest.

The foundations of political democracy and of planned welfare could also not be surely laid except by the creation of a continuing habit and experience of fruitful, associated and equalitarian living among the people such as membership of a cooperative body offers. The act of casting a vote for candidates, almost all of whom are virtual strangers for the large mass of the people, could hardly bring home to the citizens either the privileges or the responsibilities of democratic living. The creation, out of a state of economic backwardness and of meagre resources, of a modernized, efficient and progressive economy needed the mobilization on the one hand of all the material resources of the people and on the other, of their unstinted devotion and readiness to undergo the necessary self-denials during the initial period of growth.

The normal functioning of cooperative business would be the best aid to inculcating among the people the habit of democratic living and of operating a modernized industrial economy. When a traditional and class-bound society is almost suddenly confronted with the challenge of practising, preserving and strengthening its freshly acquired democratic existence it must set the highest value on promoting cooperative institutions as a regular feature of the normal life of the people.

Thus raising cooperation from the level of one of the several alternatives which were open to individual citizens without any indication of the choice of the community as a whole, to that of a highly regarded and integral part of national policy was the principal feature of the new cooperative policy which was enunciated under Vaikunthbhai's leadership. In a sense cooperation was always a part of government policy. But that policy itself favoured the withholding of collective support from all individual efforts, whether in the cooperative or in other sectors of economic life. In free and democratic India, Government has adopted a policy of actively recognizing in due measure the national or collective importance of the several ways of organizing the creative effort of people. To confer on cooperation a relatively high order of preference was a deliberate act of national policy which emphasized the responsibilities of the State as well as of cooperative institutions. A certain partnership of faith is created among the two, and whether this partnership is, or is not, accompanied by partnership in resources and in decision making is a comparatively less important matter.

A mere pious expression of approval, or even of strong appreciation, of the cooperative form of organization would avail little either for the progress of that form or

for the improvement of the capacity of common men, especially in heavily populated agricultural communities. To secure these positive results it is necessary to take active steps to equip the would-be members of progressive cooperative enterprises at least with the minimum equipment needed to start them on the career of self-reliant cooperative business.

One leading Western participant at an international meeting on techniques of planning, was very strongly urging for nations and for men the virtues of self-reliant development. He interlaced his somewhat longish talk with a rather frequent repetition of the familiar phrase "You must raise yourself with your own shoe-strings". But to raise oneself by one's own shoe-strings, one must, in the first place, have a pair of shoes on one's feet, and these should have strings of at least the minimum strength. The obvious moral, that for the initial equipment, at least for the quantum needed to produce a catalytic effect, the less developed or undeveloped parts of the national and of the world community have a strong claim on the aggregate resources, was not lost on the other participants.

One of the first things which Vaikunthbhai did, after he assumed the twin charge of the Finance and the Cooperation portfolios in the then Bombay Government, was to set the minds of cooperators at rest on one issue: namely, that any assistance which they can legitimately desire to enable them to be, at least eventually, not only self-reliant, but also strong and useful members of the national community would be made available to them by Government on behalf of the community. The policy of State participation in cooperative effort with a view to strengthening its material as well as social strength, was adopted only gradually and selectively as a necessary corollary to the adoption of the objective of substituting, at least in some measure, the cooperative form of mutual service in place of the usurious or exploitative form of mercenary business, which in the special conditions of India acted as an impediment to the economic and social progress of the countryside.

A very telling example of this inevitable logic of the situation is supplied by the long experience of anti-usury measures. For several decades before the first popular government came into power in Bombay there were anti-usury measures on the statute book. But for want of alternative sources of credit, which could be trusted to operate within the four corners of the law, these measures had remained a dead letter, if indeed they had not made the situation more burdensome for the borrowers. Helping the cooperatives to establish themselves on a sound basis and to do business on an expanding scale was thus necessary to ensure the success of this and of several other measures of social and economic reform.

Both these features of cooperative organization, viz. its significance as an integral part of the scheme of national reconstruction and development, and the active participation of the State in the equipping and functioning of cooperatives were quite unfamiliar things, not only in India, but also in most other countries. It is not surprising that many of the developing countries, especially those which had some struggling institutions in the cooperative movement, initiated by erstwhile colonial regimes, had similar problems, and they were trying to meet them along lines similar to those which we were led on to adopt in our country. The socialist countries as a class had adopted cooperative organizations as an integral part of their machinery of distribution of consumer goods, and quite frequently as a permissive form of agricultural production.

We are not concerned in the present context with the economic success or otherwise of these features of socialist systems. In international cooperative circles, ever since Russia became a socialist State, the Russian cooperatives had appeared to Western observers as unsuitable colleagues of theirs in the International Cooperative Alliance. Russia was already a member of this organization, which was founded in 1895, and the Russian cooperative movement continued to claim and receive its rights of membership of that body. The large majority of members of the Alliance were drawn from capitalist countries, who naturally disliked the whole system of authoritarian central planning and the so-called cooperative institutions, either of production or of distribution, which accompanied it. No new member from the socialist group of nations was admitted till recently, and where the continuity of old cooperative institutions in such countries was broken their earlier memberships were held to have lapsed.

Russian cooperators valued their separate recognition in the Russian social and economic system very highly, and they continued to urge within the International Alliance and its triennial congresses that the essential common features of cooperatives, as distinguished from their available alternatives in any pattern of social life, capitalist or socialist, should be clearly defined, and that such of the cooperatives as followed these essential principles should be recognized as full members of the International Cooperative Alliance. The initial instinct of cooperators from the capitalist countries was to stick to the position that the principles of organization, and methods of practical operation, associated with the premier cooperative institution, namely the Rochdale Pioneers of Manchester, established in 1844, should continue to be recognized as the essential principles of cooperation. Any cooperative institution which did not in all respects conform to these principles should be refused recognition as a cooperative.

This led to an almost continued wrangle at Cooperative Congresses for a number of years. As a first step to meet the demands of dissenters the Congress appointed a special Committee to define what these reputed Rochdale Principles were. The first draft of this Committee's report, which was based almost exclusively on the constitution and working of the Rochdale Society, and other consumer organizations, failed to satisfy large sections of the Congress. The Committee was, therefore, instructed to take a wider look at the functioning of all types of cooperatives and to resubmit its report. This revised report was presented to the Paris session of the Cooperative Congress held in 1937. Having reviewed the historical evolution of the cooperative form from the early days of the Rochdale Pioneers to modern times this Committee, in its report, enumerated seven principles in all as comprising the Rochdale system. In their turn, these seven principles were grouped by the Committee into two classes, one class containing four principles, which were held to be more essential than the other three which formed the second class. The Committee's list of the more important principles was as follows:

- (1) Open Membership;
- (2) Democratic Control (one man, one vote);
- (3) Distribution of Surplus in proportion to members' transactions; and
- (4) Limited Interest on Capital.

The remaining three principles, described by the Committee as of lesser significance, were:

- (5) Political and Religious Neutrality;
- (6) Cash Trading; and

(7) Promotion of Education.

The approach to, and pattern of disposal of, the whole controversy about the common essentials of cooperative activity underlying its variegated forms pleased nobody. Even the older cooperators were not happy at the institution of a second class of principles. The ambiguity of content, and of evaluation of each principle remained what it was. And the Paris Congress, of 1937, before which this Report came up for consideration, could do no more than "record" it, thus leaving the controversy unresolved.

The Paris Congress was soon followed by the dislocation of the Second World War, which in turn was followed by the setting up of new regimes in several countries, and by the establishment of the United Nations. The gigantic task of reconstruction, rehabilitation and development, which confronted all nations, socialist as well as non-socialist, altered the whole concept of the relationship of the State to its citizens. For a long time before the war the word Planning was almost a bad word in capitalist countries. But under the guise of promoting defence and welfare, consolidating peace and securing full employment the State, even in the leading non-socialist countries, took to itself so many powers of regulation and positive performance in the economic field that the absolute concept of individual freedom and of non-involvement with the State, by which the Rochdale Society appeared to have laid great store, could no longer be sustained.

As a result of the emergence of the One World System in politics and economics, as well as in educational and social affairs, the old pose of 'holier than thou' could not be indefinitely sustained among nations with different social systems. At last at the Bournemouth Congress, held in 1963, a Russian resolution asking the Central Committee to set up an independent Commission "to formulate the fundamental principles of activity of cooperation under modern conditions" was passed by an overwhelming majority.

In due course, in October 1964, the Central Committee of I.C.A. set up a Commission of five members and asked it specifically to ascertain how far the Principles of Rochdale — as defined by the I.C.A. Congress in 1937 — are observed today, and the reasons for any non-observance. The Commission consisted of the following members: (1) Mr. A. Bonnar, Senior Tutor, Cooperative College, U.K.; (2) Mr. Howard A. Cowden, Chairman, International Cooperative Petroleum Association, U.S.A.; (3) Prof. Dr. R. Henzler, Director, Institute of Cooperation, Hamburg University, Germany; (4) Prof. I. Kistanov, Professor of Economics and Cooperation, Moscow Institute of Peoples' Economy, and (5) Prof. D.G. Karve, India, who was elected Chairman, by the other members at the Commission's first meeting held in London in December 1964.

In December 1965, that is after the Commission had visited Finland and Soviet Russia, and had held several preliminary discussions, Prof. Kistanov had to restrict his movement out of Moscow for reasons of health. His place at later discussions was taken by Prof. G. Blank, Head of the Department of Economics, Moscow Cooperative Institute, who, therefore, signed the unanimous report of the Commission which was finalized in London, in February 1966.

Apart from undertaking independent studies of their own, and holding frequent discussions among themselves on the many important aspects of their terms of reference,

the Commission addressed detailed questionnaires to the National Cooperative Movements of over seventy countries, some of whom were not then members of the International Cooperative Alliance.

It may interest the present audience to know that among persons who were approached with a view to membership was Vaikunthbhai. For obvious reasons of health, he could not accept the invitation. But he utilized the occasion to record his own views on the subject, which were posthumously published in an issue of the **Indian Cooperative Review**. The Commission found this note of great value in formulating its recommendations.

Over one hundred replies, many of which were profusely documented, were received from cooperative bodies, as well as individually from some cooperative leaders. Besides Vaikunthbhai's note, writings of some other Indian cooperators, like Prof. Gadgil, and reports of some of the cooperative committees set up in India were also available to the Commission. This gave the Commission a full and comprehensive view of the practice, as well as the thought, of cooperative institutions in countries having different social systems, and occupying different stages of modernization.

From the mass of material, written and oral, received by the Commission three things emerged very clearly. Firstly, all cooperators, everywhere, concurred in the basic philosophy, or aims of cooperation as formulated by Rochdale Pioneers, viz. creation of a Cooperative Working Community in which all men have an equal status and in which no one benefits at the cost of another. Secondly, all of them entertained the highest regard for the rules and methods of Rochdale which they try to follow to the greatest possible extent; and thirdly all of them have found it necessary in some respect or other, to recast one or more of these rules and practices, so as to enable them, to realize more fully the aims of the Cooperative Movement in their own peculiar circumstances.

Probing back to the very establishment of the Rochdale Pioneers' Society, one can clearly discern that whereas the aims and ideals of the Pioneers were revolutionary — namely, the creation of a harmonious, in place of a trafficking, human community — many of the rules and methods of their functioning were clearly evolutionary. Certain features of their organization and methods were inherent in the ideal which they followed. In that sense they were fundamental truths, more popularly called principles. But some features of organization and practice were evolutionary, changeful. They were true or valid, in one context, but not in another.

In view of the varying circumstances of each time and place, in which principles and methods have to be understood and practised, we felt that our formulation of principles could not take the form of coming or making short formulas. Rather, we felt called upon to express, even in the summary part of our report, our version of each principle in as adequate a manner as was thought to be necessary. Summing up our examination of the seven principles enumerated in the Report of the Special Committee of 1937, we recommended that the following should be considered as essential to genuine and effective cooperative practice:

1. Membership of a cooperative society should be voluntary and available without artificial restriction, or any social, political, religious or racial discrimination, to all persons who can make use of its services and are willing to accept the responsibilities

of membership. (Actually, the word 'racial' was an addition accepted on the suggestion of a delegate from the floor of Congress).

As will be seen, in this reformulation of the cooperative principle on membership the natural limitations on open membership are specifically recorded, and the voluntary character of membership is emphasized. In the body of the Report, the formation of cooperative association by other than cooperative organizations, or by persons who are primarily private businessmen, is described as an act which, while strictly legal, cannot be said to promote the aims of the cooperative movement, principally that of substitution of a social system of mutual aid in place of trafficking for profit.

2. Cooperative societies are democratic organizations. Their affairs should be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Members of primary societies should enjoy equal rights of voting (one member, one vote) and participation in decisions affecting their societies. In other than primary societies the administration should be conducted on a democratic basis in a suitable form.

This formulation of the principle of democratic management of cooperative bodies has several implications. In the first place out of the several systems in which voting rights in secondary or federal cooperative bodies are actually organized, so as to make for a sense of equity and for efficient administration, the Commission refused to choose any single one as the only cooperative principle. These several systems are:

- (i) treating each member-institution as entitled to equal vote, or
- (ii) treating each individual member of a member-institution as entitled to equal vote, or
- (iii) giving more votes to large societies up to some extent, or
- (iv) drawing upon the business contributed by a member-institution, as a balancing factor.

In matters like this, in giving effect to the basic principle of democratic equality the claims of equity and of cooperative efficiency must be interpreted by reference to the needs of the situation.

Along with democratic control, the concept of autonomy of cooperative institutions must also be interpreted with reference to their capacity for self-reliance. In international cooperative circles, there is now growing appreciation of the need for external, and especially governmental aid to cooperatives in developing countries in the initial stages of their growth. But absence of a full-fledged effort to reach the stage of complete self-reliance, or willing acquiescence in a relationship as a result of which the decisions for action by cooperatives are made by others than their own members, would not be considered to be in conformity with cooperative principle.

3. Share capital should only receive a limited interest, if any.

Cooperatives are users' organizations for mutual service. Hence any capital owned or employed by them is only an instrument of production. Share capital, in so far as it is used in the business of a cooperative, would be entitled to its appropriate rate of interest, though this would not preclude any society from keeping its share capital at a low figure or paying no interest at all on it. The only cooperative value involved is that capital in any form used by a cooperative should not have a remuneration higher than an appropriate rate of interest, and that where unequal shares are held the right of participation in the control of the cooperative should not be weighted in favour of the

larger holders. No substantial difference of opinion exists on this issue.

4. Surplus or savings, if any, arising out of the operation of a society belong to the members of that society and should be distributed in such manner as would avoid one member gaining at the expense of others.

This may be done by the decision of members as follows:

- (a) By provision for development of the business of the cooperative;
- (b) By provision of common services; or
- (c) By distribution among the members in proportion to their transactions with the society.

Of these three allowable courses of action it is possible that the more orthodox would have held the last, i.e. distribution in proportion to transactions, as the only proper course to eliminate any trace of profit. The whole structure of finance of cooperative business, and the need for self-finance, have, however, developed in such unexpected directions that the traditional principle can no longer be upheld as the exclusive course to be followed in all cases even by consumer societies. In other types of societies the situation corresponds more closely to general economic practice, and therefore, surplus, if any, is often more naturally thought of as a source of internal financing, and distribution in some form directly to members themselves is only one of the several recommended courses. The members of each society ought to be free to make a choice according to their best judgement.

The Commission has deliberately refrained from passing any opinion on the merits of distribution of reserves of cooperative associations either in part, or in entirety, to members. It used to be held for long, probably the latest expression of view on this subject of even Vaikunthbhai was that unencumbered reserves, especially after dissolution, should be utilized in support of some general cooperative purpose, and that they should under no circumstances be distributed among members. Cooperative business is becoming so complicated and massive that both for financial and tax reasons all kinds of earmarked, general and contingent funds and reserves have to be created. There is no general principle involved in debarring members for all time from having a share of these reserves. Even in the exceptional event of a dissolution, it would hardly be tenable to urge that the reserves do not belong to the corporate body of members — past and present. It is not difficult to devise a scheme of distribution by which no member benefits at the cost of another. On the other hand, especially after dissolution, members may in some cases desire to have the surplus reserves used for a worthy object of promoting the cooperative cause. The Commission held that no cooperative principle is involved in making a choice among these alternatives and left the decision to the members of each cooperative institution. It is probable that some purists in a few countries may not quite relish this pluralism.

5. It will be observed that the Special Committee of 1934-37 had, in a manner of speaking, downgraded educational activity of cooperatives to a position of secondary importance. The Commission, however, restored education to its proper place and recommended that “all cooperative societies should make provision for the education of their members, officers, and employees, and of the general public, in the principles and techniques of cooperation, both economic and democratic.” If it is realized that what the cooperators are trying to build is not only a business, but even more so a faith and a desirable way of social living, which has to justify and establish itself, in com-

petition with other ways, e.g. the purely capitalist, or the purely authoritarian, the temptation to look upon education, as a secondary matter, would vanish. How much, and in what manner, a particular cooperative should devote its financial resources for the promotion of education is a matter which, of course, must be left to the decision of members.

Besides education, the Committee of 1937 had downgraded two other principles of the Rochdale system, viz. Cash Trading and Political and Religious Neutrality. The Commission found that hardly any one of its hundred odd respondents supported Cash Trading as a principle. The cooperatives should at all times follow enlightened and socially desirable trade practices is a general counsel inherent in the character of cooperative enterprises. But the manner in which the policy would actually be implemented must depend on the circumstances of each case which can be judged with the requisite knowledge and responsibility by members themselves.

Similarly, while it would be impossible, even if it were held to be desirable, for co-operators to keep away from issues of public policy, wherein their own immediate or long-term interests are involved, the manner in which at any given time a cooperative should give effect to its interest in public affairs is not a matter which can be reduced to a common formula.

Thus out of the three downgraded principles of the Rochdale system, the Commission restored education to its pre-1937 position of an essential principle, and removed both cash trading, and political and religious neutrality from the list of principles. Some guidance as regards correct lines of cooperative action in both these respects is contained in the relevant parts of the Commission's report.

6. We are accustomed in our country to a general complaint that members of a cooperative society are not always loyal to it, that is to say, either on account of neglect or on account of occasional or minor advantages they take their custom to other suppliers. This problem of loyalty of individual members does not seem to cause much worry to cooperatives in developed countries. They have, however, strong feeling that individual cooperatives within each nation, and central cooperative bodies of each nation, do not purposefully and readily collaborate with one another to expand total cooperative industry and business. In view of the opportunities of cooperative development of internal and international business, and in view of the competition of large combines in private and public sectors, the Commission felt that the inherent bond of solidarity among co-operators and cooperative institutions should be expressly stated. The rallying call of the cooperative movement, "one for all, and all for one," was not addressed only to individual members of a cooperative society. It is a call to which all co-operators, in all institutions, and in all countries, must spontaneously and unreservedly respond.

The process of concentration, and common action, to reduce costs and expand business is gathering momentum in other forms of organization. A new Industrial Revolution of unprecedented magnitude and potentiality is drawing on humanity. If the co-operators do not act, without loss of time, in support of their cause, singly and in combination, they will soon be swamped by the competition of giant units. Hence it is imperative that all cooperative organizations, in order to best serve the interests of their members and of the whole community to which they belong, should actively cooperate in every practical way with other cooperatives at local, national and international levels.

Thus the newly formulated six principles of cooperative activity are in substance a restatement of the essential values which cooperators from the very pioneering days of the Rochdale Society have considered to be an integral part of their faith. It was most gratifying to see that when the Central Committee's resolution urging the Congress to adopt the recommendations of the Commission came up for discussion the first speaker from the floor who addressed the gathering in support of the motion was no less a person than Mr. Applegate, the present Chairman of the Rochdale Pioneer Society. He supported the motion and said that in the changed circumstances, both of technology and of expanding limits of social and economic relationships, a restatement of basic principles was overdue, and that the Commission had produced a set of recommendations which deserve whole-hearted support. Incidentally, he was also the first of a number of speakers who offered enthusiastic congratulations to the Commission, such as: "The report will live as long as the cooperative movement lives." As we with long life to the cooperative movement, this description of the Report must be treated as a well-meant exaggeration. One can foresee that at least after twenty years, if not even in ten years, the world would have changed so much as to need a new comprehensive inquiry into the formulation of characteristic features of cooperative business.

Considering that the U.S.S.R. were really the prime movers of the resolution asking for the appointment of a Commission, and that they were ably represented on it, and had in fact materially contributed to its discussions which led to an unanimous report, it was not surprising that the chief Russian delegate in the Congress unreservedly supported acceptance of the report, and equally emphatically opposed the two amendments which had been moved, one of which, the Finnish, proposed the deferment of the question to the next triennial Congress, and the other, Belgian, which sought to formulate somewhat differently a few of the Commission's recommendations. But the trenchant and clear terms in which Russian support was given are significant. In substance the chief Russian delegate said: "The recommendations of the Commission are based on a deliberate compromise which the members of the Commission, who were drawn from several countries, viz. U.S.A., U.K., Russia, Germany and India, have reached after prolonged and free discussion. They should be accepted as a step forward in the right direction." One would not have been surprised if a British Liberal of the 19th century had said this.

Support was not slow in coming from other quarters as well. Over twenty-five delegates from different countries participated in the debate. Mr. Jerry Vooris, President of the American Cooperative League, in supporting the Resolution, paid a warm tribute to Indian chairmanship of the Commission. Repeating in substance what he had said earlier in Copenhagen at the meeting of the Central Committee which received the Report, and framed the draft Resolution for the Congress, Mr. Vooris said that: "We are accustomed to describing some countries as developed, and certain other countries as developing or even under-developed. Whenever we use these terms, we should beware that we refer only to economic, and not to spiritual or intellectual development. I have here specially in my mind the leadership offered to the Commission, and through the Commission to the whole Congress, by the Commission's chairman."

As the Indian delegates were all the while representing the common fund of cooperative thinking in India, to which the largest single contribution all along had been that of Vaikunthbhai, they knew where the compliments being paid in Vienna to Indian

leadership should really belong. By a coincidence, as this happened to be the first session of the Congress after Vaikunthbhai's demise, the Congress by a special condolence resolution offered its sincere tribute to his memory.

We in this country have no reason to be complacent about these nice things said about us. Not only in the cooperative, but in several other fields in which the world is interested we have been known to be capable of formulating in felicitous terms lofty objectives and high sounding principles, largely for other people's use. To be honest to ourselves, and to the rest of the world, whom obviously we cannot all the time continue to impress by mere words, we must set an example of honest, efficient and progressive cooperative activity in conformity with the principles which we enunciate. Especially the other members of the developing group of nations have a right to expect from us leadership in deeds, not in mere words.

It is not suggested that we are not doing anything in the practical field of cooperative achievement. There is, however, a feeling that we are not doing enough. Especially in the matter of dropping the crutches of governmental assistance, and of securing support from all our countrymen on the basis of a convincing performance, cooperators as a class do not seem to be doing enough. There are several exceptions to the prevailing pattern of smug and quiet acquiescence in a state of socially sponsored existence. One should be aware in this context of several blemishes of government policy, especially the lack of inter-ministerial consensus on practical implementation of generally accepted governmental decisions in regard to cooperatives. But the recognition of responsibility to give both to the government and to the national community evidence of strength, solidarity, efficiency and service is not as deep, as widespread and as keen as it needs to be if cooperators in India are to meet the opportunities and the challenge of their time.

On another occasion like this one it is repeated that in the field of cooperation Vaikunthbhai was a leader of leaders. This opportunity is taken to record one's own sense of gratitude and respect to his memory, especially as one was so recently a witness to the wide appreciation for his teachings at the last session of the I.C.A. Congress which is the most representative gathering of cooperators of all nations. It would be fitting for us to use this day for self-purification, and for rededication to the noble cause of humanity and selfless service for which Vaikunthbhai spent his entire life.

Cooperative Principles : Mission and Profession

ROCHDALE PIONEERS—IDEALS, PRINCIPLES AND RULES

IT IS natural that when we speak of cooperative principles our mind should go back to the Rochdale Pioneers Society, which was established in Manchester in 1844. What distinguishes this Society from all others is that it is the earliest cooperative body formed for a business function which has continued to the present day. It is not surprising, therefore, that later cooperatively-organized businesses should try to learn from, and conform to, the Rochdale Model as far as possible.

It should, however, be remembered that the Rochdale Pioneers desired to do business which they wanted to succeed in economic, as well as social and moral terms. It is not easy to say which of their objectives had a priority in their scale of estimation. It may, however, be stated without fear of contradiction that any success in economic terms, which led to a surrender of the social or moral values which they considered to be the inspiration behind their activity, would have been spurned by them. For success in cooperation a triple balance sheet has to be drawn up. Cooperative activity must be profitable economically while, at the same time, satisfying the social tests, and promoting the moral ideals for which cooperation stands.

The moral ideal of cooperators is to ensure that in all human association the objective must be to promote the dignity and freedom of the human beings who form that association. It follows as a corollary, almost as the essence, of this ideal, that cooperative associations are characteristically users' organizations. Those who participate as users of a cooperative activity are its natural constituents and monitors. Every material aid which they use such as capital is only an instrument of action. It, or those who possess and offer it, ought not to be allowed to dominate the association either by authority, or by a share in the net saving or surplus in the finances of the association. The Rochdale Pioneers described their ideal as the creation of a workers' community. This would emphasize the essentially "human" character of cooperative

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association even more completely. But in whatever form cooperative association is expressed, it has to be characterized by the human users and participants being ultimately responsible for decisions as well as results.

The mutual relationship among user-participants, i.e. among members, was to be that among equals. This is part of the social philosophy of cooperators. The rules of the Rochdale Pioneers translated this principle into an enunciation that each member should have one vote. This is a broader democratic principle and the ultimate source of authority in a democracy, either in general elections, or on referendum and initiative, is the free and equal franchise of members. This is true of cooperative democracy also. The superstructure and specific functional organizations of democracy are often built on the basis of weightage appropriate to the efficient discharge of the particular function for which an organ is set up.

In other words whereas sovereignty, or supreme authority, is equally shared by all constituents, the operational organs are constructed on principles appropriate to the efficient discharge of the purpose for which the particular organ is formed. The promotion of the best welfare, or the satisfactory service, of the equalitarian society needs and justifies such structural arrangements which on the surface appear to offend against the principle of equality. To make a success of the primary equalitarian organization set up for a common purpose is the end towards which appropriate formulations of fundamental arrangements lead.

FORMULATION OF ROCHDALE PRINCIPLES

For the small band of idealist, almost evangelical, workers who formed the Rochdale Society, it would have been too far-fetched an idea to try and lay down a set of cooperative principles for all time to come. They knew the ideal of human association towards which they desired to move, they valued an equality of status among members, but for most other things concerning organization and operation, they had to be guided by the social and economic circumstances in which they were living and by the specific purpose of meeting the economic needs of members as consumers, which they had set before themselves. The truck-shops of their employers and the petty capitalist groceries, against the unconscionable practices of which they were revolting, set for them a standard of comparison, to decide what they would do, and what they would avoid. The rules of their association, therefore, have a relevance to the circumstances in which they were working and the specific purpose for which they had to operate from day to day.

In the circumstances, it was natural that not all their so called rules were made or defined at one and the same time. For survival and progress, they went on making and modifying rules which in due course attained a certain degree of firmness. Even then, the Pioneers themselves would not have foresworn their freedom to make changes as circumstances would demand. In course of decades, as social historians began to look back on the performance and achievements of the Pioneers, they set out in their writing what they considered to be essential Rochdale Principles. The selection and particular formulations were of the historians' making, though over the years, certain respect or validity came to be attached to broadly accepted formulations.

Reformers in all countries who were inspired by the same ideals as the Rochdale Pioneers, formulated their own rules of operation, largely under the stress of their own

circumstances. In doing so, if and when they knew about the system of operation in Rochdale, they tried to learn by English experience. This was so natural even for consumer cooperative business that no one either within or without a country thought of adverse comment on differences which were natural and spontaneous. The test, the inescapable test, was naturally of results. If a set of rules and practices led to a successful enterprise which satisfied the demands of members and promoted the ideals for which cooperation stood, they received respectful notice. Especially in countries, such as Germany, where the cooperative compulsion of the mass resentment against established socio-economic institutions was visible, in the agrarian field, in respect of the financial needs of small farmers, and in the cities in the needs of small artisans, forms of association emerged, which could not be too literally and too specifically compared with the Rochdale Pioneers.

At this distance of time, it would be amusing, if it had not already caused so much unnecessary bitterness among cooperators, to ponder over the causes which led the Rochdale Pioneers to declare their political and religious neutrality. The simple and elementary significance of such a declaration is clear. The Rochdale Pioneers were a band of poor mill workers, who desired to set up a consumer shop so as to secure for their members a supply of pure goods at reasonable prices. They were convinced that unless the element of trafficking, buying cheap and selling dear with a view to maximizing middle-man's profit, was taken out of this business, neither purity nor just pricing could be ensured. Mutual service in place of trafficking thus formed the core of Rochdale action. Any self-reliant and cohesive action on the part of a group of common people joined together by common economic interest was so unusual in those days that it was quick to attract adverse notice not only from the employers and traders, but also from the State. As the law then stood, all joint action by workers to urge their claims against employers was apt to be treated as a conspiracy, and if the claims were urged under the threat of a strike, it amounted to a criminal conspiracy.

The Rochdale Pioneers Society was established about a generation before a genuine trade union could be lawfully established in England. All voluntary and spontaneous organizations, which were already not a part of the traditional way of life, earned the suspicious, and often unfriendly, attention of employers, government, and even the church. It was, therefore, not surprising that a new society, like the Rochdale Pioneers, formed by an intellectually and socially active group of disgruntled workers, would try to minimise the expected opposition to their efforts by a public declaration of their political and religious neutrality. This declaration, which only too obviously conformed to the ideal of essential human dignity and equality among men, has to be understood with reference to the need for survival and progress of the newly started cooperative association.

If the political passions among nations had not been aroused to fever heat after the establishment of the Communist State in Russia, the different degrees and forms of relationship between the cooperative movement and the organs of government would have evoked no more than a mild and thoughtful interest. But the claims of world revolution put up by the communists on the one hand, and the dread and abhorrence of all things communist entertained by capitalist States on the other, endowed the Rochdale declaration of a largely defensive neutrality with the strength of an aggressive dogma. The completely unnatural character of this controversy between capitalist and socialist cooperators about the alleged inviolability of political neutrality was exposed

by the ease with which it was dropped as the era of peaceful co-existence dawned on the leading exponents of the two systems.

The Special Committee of the ICA whose report on Cooperative Principles came before the Cooperative Congress held in 1937 at Paris was midway between the age of ostracism and co-existence. In this, as in all matters of importance to the successful practice of cooperation, that committee tried to evolve as generalized a statement of Cooperative "principles" as possible. They could not, however, completely ignore the atmosphere of active opposition between the two camps of nations: Socialist and Capitalist. Their scheme of formulation of cooperative, or more specifically Rochdale Principles, was based on a division of these principles into two classes — important or essential, and less important and, therefore, presumably, not essential.

In their second report, which took into account forms of cooperation other than consumer stores, they enumerated seven prescribed traits as constituting the Rochdale System. Of these, the following four were described as major, essential or obligatory attributes of cooperative activity *a la* Rochdale:

- (1) Open membership;
- (2) Democratic management—one man, one vote;
- (3) Limited interest on capital; and
- (4) Payment of dividend in proportion to transactions.

The three traits described as of less importance and, therefore, presumably, non-essential were:

- (1) Religious and political neutrality;
- (2) Cash Trading; and
- (3) Education.

Neither the supporters of the capitalist or classical form of cooperatives, nor the leaders of cooperative activity in Socialist States were satisfied with the report. The very concept of graded validity of principles was resented in many quarters. The snappy or summary manner in which the principles were expressed failed to carry adequate meaningfulness to be either enlightening or helpful. It was the practical co-operator, and cooperative administrator, who sought guidance while making up his mind how he should make a correct cooperative choice while promoting the objects of his cooperative organization. Is non-voluntary membership, even though open, compatible with cooperation? What are the limits on "openness" of membership? Can, or must, the principle of 'one man, one vote' be followed at all stages and in all circumstances? Must interest on capital be paid? Must dividend be distributed? These were very vital questions even in regard to the principles which the Committee had qualified as essential. As for the "less essential principles", there was no guidance at all, as how and how far they can be varied or abandoned. The cooperative movements in different countries went their own way, improvising their own modifications to all the more and less essential principles set out in the 1937 report. The period of the great depression through which they were passing made a constant re-evaluation of their forms and practices obligatory for most cooperatives.

POST-WAR COOPERATION — 1963 CONGRESS

The world was plunged into a long period of uncertainty, conflict and disaster almost immediately after the 1937 Congress in Paris at which the Committee's report was

uneventfully field. Conditions as they emerged after the World War II were radically different in almost all countries of the world. The State came to play a role of constant overseer, guide and supporter of the life of people, though the forms and extent of State involvement varied from country to country. The relations between the nations became closer and more continuous as a result of the establishment of the United Nations, and its specialized agencies such as FAO, World Bank, UNESCO etc. As an accompaniment of the impetus of a gigantic struggle for survival, a scientific and technological revolution was initiated which has thrown all forms of social, economic and political organization into the melting pot. Every old form is on the defensive. It has to be proved or adjusted, in the light of the demands and promises of the new times which broadening knowledge and a unifying world are unfolding before us.

The position of cooperative movements in the developing countries is even more challenging. Many of the developing countries are ex-colonial regions, which have obtained their new freedoms by strong popular movements. One of the most effective urges behind popular action was that of ensuring rapid economic development, which became the chief objective of the new governments, only next to preservation of their newly found freedoms. All sections of society, and all forms of association including cooperative, were in varying degree incorporated into a new programme of national economic policy. Participation of the State by way of finance and personnel, and active support to ensure progress of joint enterprises was a common pattern of economic transformation. Private enterprises and cooperative enterprises both showed equal readiness to adopt this pattern in appropriate circumstances.

The cooperatives set up in the developing countries, in their dependent State were largely for specific purposes, and they had to operate under considerable governmental regulation without being entitled to any special support from public resources. As the private, or in specialized fields, the State activities were the officially accepted form of economic enterprise, the cooperatives had to act as subsidiaries to them. Whether they were marketing societies as in Africa, or credit and thrift societies, as in Asia, they left primary units of production as helpless as they ever were, and kept the upper centres of finance and trade under the domination of private interests. A struggling mass of semi-indigent primary members could not by their own financial and personnel resources manage successfully a structure of cooperative business against the competition and institutional exploitation of uncontrolled private interests. There was nothing to cause surprise in this apparent failure of cooperation, in these circumstances. It was really a failure of a policy of apparent support of cooperation which meant in practice maximum of regulation and a minimum of support. A strong cooperative movement could obviously not take root in these circumstances.

With greater freedom of action and with greater practical support and, where necessary and appropriate, greater participation by the State, cooperatives in developing countries are trying to shoulder a major responsibility in initiating and promoting an Industrial Revolution in their regions. The Rochdale Pioneers were, in a sense, victims of the Industrial Revolution in Great Britain. Cooperators in many of the developing countries have also in the past been victims of capitalist industrialization, both indigenous and foreign. But currently as parts of free democratic communities committed to bringing about rapid economic transformation, they are active agents and collaborators of a new pattern of Industrial Revolution. Even in developed countries, capitalist as

well as socialist, constant technological change and mounting pressures of equalitarian ideas, is transforming the cooperative outlook from a defensive to an aggressive and more purposeful one.

When, therefore, on a proposal of the Russian delegation the subject of appointing a new independent commission to go into the current formulation of cooperative principles contained in the Report of the 1937 Committee — and to report whether, and how far they are at present observed, and to recommend changes, if any, which should be made in them, came up for consideration at the 1963 Congress, no surprise need have been caused. That the proposal was adopted by a large majority, proved that in all types of economies, and at all stages of development, cooperators were anxious to undertake an internal self-analysis, and to prepare themselves for the more complicated and challenging task that now faced them. That cooperators from socialist as well as capitalist countries joined in this demand showed that their devotion to the cooperative, in preference to the purely capitalist or socialist ideal, was as intensive as it was in the days of Rochdale Pioneers. There was a demand to find a formulation of principles and procedure which will help cooperators to win fresh ground both from capitalism and socialism.

THE COMMISSION'S REPORT

The Report of the Commission was characterized by two important features which distinguished it from earlier, and especially the 1937, studies of the principles of cooperative. The Commission refused to accept a gradation of validity among different principles of cooperation. Given the idea of seeking maximum economic progress while maintaining the dignity, freedom and equality of human beings, all methods of organization and working, without which this ideal will not be attained, must be considered to be a principle of cooperative activity. If, without following a particular method, ideals of cooperation could be attained, howsoever preferable that method may appear to some cooperators, it is not a principle of cooperation. Secondly, in formulating a principle of cooperation, its full implications must be brought out if it is to help practical cooperators to solve their problems of making a right cooperative choice among ways by which they hope or intend to promote the best interests of the members of their cooperatives. Brevity or brilliance of phraseology in formulation of cooperative principles which is attained at the cost of its accuracy and adequacy, or serviceableness as guide to practical conduct, would be both incorrect and injurious.

It is noteworthy that even with regard to two well-known features of the Rochdale System, viz. Political and Religious Neutrality, and Cash Trading, which the Commission did not adopt as a Principle of Cooperation, it did not content itself with a mere negation, or a downgrading. It went into the whole question as to what value the Rochdale Pioneers sought to realize by following these two tenets, and what would be their appropriate equivalents at the present stage of the cooperative movement. As regards Political and Religious Neutrality, the Commission upholds the obvious cooperative principle that there should be no discrimination among members on religious or political grounds. At the same time, it goes on to state that cooperation as a movement with an economic interest, cannot avoid involvement in affairs of government, which whether they are, or are not the subject of party conflict, are in their nature political. The attitude of cooperators to political questions ought not

to be simply the negative one of abstention, but it must be the positive reflection of their resolve to meet and work together on common ground. While, therefore, neutrality in certain circumstances is a right and proper policy, there should be freedom at all levels of the cooperative structure, for members, as well as for associations, to take to political questions the attitude which are necessary or most appropriate to their circumstances.

Obviously, Cash Trading can have no significance for a variety of cooperative activities which cooperators of today have to promote. Even with regard to consumers business which occupied most of the attention of Rochdale Pioneers, neither in their purchases, nor in their sales, can cooperatives make a fetish of cash trading without severely restricting the scope of their usefulness to their members. On the other hand, the major objectives of prudent and sound business management in the interest of members as well as of the cooperative association cannot be given up. But the particular business which at any given time or place would best carry out these objectives are variable features of cooperative business. They cannot be reduced to a uniform and rigid formulation.

Similarly, the Rochdale stipulation favouring pure quality and correct weight can be fruitfully understood as conveying a high regard for the interest of members, and for a high ethical standard as the best cooperative policy. The Commission has pointed out that purity of quality and accuracy of weight are in many of the developed countries secured by anti-adulteration laws, and by standardized packings. But the cooperators' resolution to follow a high standard of individual and social rectitude transcends the minimum requirements of law and of common commercial practice. Cooperators ought to be able to live up to the ideal that whatever is socially or morally wrong cannot be cooperatively right. This discipline is a part of the moral motivations of the cooperative movement. It cannot be reduced or lowered to a formulation which would apply mechanically to all practical situations. Cooperators must regulate their practice so as to conform to their ideals in this respect.

The decision of the 1937 Committee to recommend that education be considered a secondary, or an optional, principle of cooperative activity is difficult to comprehend. The education of members in the special characteristics and obligations of cooperation is a *sine qua non* of cooperative existence. Even more important than contribution of fees, is the subscription to ideals and values. How can this vital need be met except by cooperative education. Almost of equal importance is the propagation of cooperative ideals in the whole community whose passive tolerance, and if possible, active support is necessary for survival and progress of cooperatives. The professional training of staff employed by cooperatives may be left to general institutions of training up to a point. The exact financial and organizational provision which a cooperative association may make for education of members, staff and general public are variable features. But, no cooperative can hope to survive and progress if it neglects its responsibility for education.

The Rochdale Pioneers were aware of the fact that a pattern of cooperative business will not survive and grow in a community which is dominated by conflicting ideals. In their day, challenge came from private capitalists who claimed unchecked freedom of action. In latter times, challenge has also come from the more powerful State industrial sector, which is making increasing inroads into the free life of people. More than philosophical ideologies the conflict of the three patterns — cooperatives, capitalist

and government, will be decided by the measure and the speed of the contribution which they succeed in making to the prosperity and welfare of their adherents.

Not only internally in each nation, but internationally for the whole world, this deliberate choice has to be made. Neither in respect of ideology and organization, nor in respect of technology and science, are we living in a static world. If the full limits of progress are not attained in one pattern, people will not hesitate to adopt a more promising and fruitful alternative pattern. Unless all cooperative businesses individually and jointly, nationally and internationally, recognize the high stakes for which they are striving, they will not appreciate the compelling need of a growing and unreserved integrity of the cooperative sector. Cooperation among cooperators, and among cooperatives, is essential for the success of each and all, and for the eventual success of cooperation as an alternative way of life and business available to free man.

In substance, the four major cooperative principles outlined in the 1937 Committee Report have been upheld by the Commission, which, however, has elaborated and supplemented them in some respects. Thus, with regard to membership, the Commission has restored voluntarism to its pride of place and indicated the nature of the natural and legitimate limitations on openness. The Commission states that membership of a cooperative society should be voluntary, and available without artificial restrictions or any social, political, (racial was added as an amendment at the Vienna session of the Congress in 1966) or religious discrimination, to all persons who can make use of its services and are willing to accept the responsibilities of membership. Like economic and functional viability and optimum size, there is an organizational viability and optimum size as well. Rendering appropriate regard to these factors ought not to be treated as an artificial restriction which would impair the cooperative character of an association.

The Commission also states very clearly that associations or persons who are themselves engaged in trafficking for profit of some sort do not become constituents of the cooperative movement by cooperating with one another for specific common purposes. On the other hand, cooperatives do not lose their character as cooperatives by joining with other un-cooperative associations for promoting specific purposes of their members. A cooperative insurance society joining a reinsurance corporation along with other i.e. corporate insurers would be a case in point.

That cooperative associations should be fully democratic is almost a self-evident principle. But whether this would necessarily imply an arrangement by which each member, or member institution, has an equal number of votes, is not a matter on which a uniform and rigid law could be laid down. Moreover, what would be suitable and equitable in a primary or consumer society, may not be appropriate in secondary societies, and in non-consumer societies. In developing economies, and for specific purposes and periods even in developed economies, sometimes outside elements, governmental and other, which are friendly to the cooperative purpose, are admitted. In all such cases so long as the modification is by free choice of members, and is limited in scope and duration, no infringement of cooperative principle would be involved. The Commission, therefore, sums up its recommendation about the governance of cooperatives as follows:

“Their affairs should be administered by persons elected or appointed in a manner agreed by the members and accountable to them.”

On the connected questions of interest on capital, and dividend to members, the Commission tried to offer an equally clear guidance. In a cooperative, users are supreme.

Contributors of capital are entitled to remuneration by way of interest, and to no share either in management or in the net saving or surplus. It is, however, not obligatory on cooperative associations that they must pay to contributors of capital the full or any measure of interest. Many cooperatives exist which pay no remuneration on qualification or membership shares held by their constituents.

Dividends are a peculiar phenomenon in consumer societies, though an element of similar return to members can be traced in other forms of cooperatives as well. It ought, however, to be clear that a deliberate creation of a surplus or saving by charging more than what is strictly necessary and then distributing the surplus among members is not an essential, or even a normal cooperative principle. If it were to be so considered, a principle would amount to an empty but costly ritual. So long as capital in any form does not share such surplus as accrues, by their free choice members of a cooperative may decide its disposal. This should apply not only to current surpluses and savings, but continuing and earmarked surpluses carried into reserves. What would be prudent or sound for a cooperative business to do in any given context will have to be decided by members on the merits of each case. But there is no compulsion exercised by any cooperative principle on the free choice of members in this respect.

MISSION AND PROFESSION

Whatever else a cooperative principle is, it ought not to be a hollow fetish, or an empty ritual. The Rochdale Pioneers set a good example in declaring their unreserved commitment to the cooperative ideal. In all human associations established for the purpose of attaining common economic ends, all participants should have an equal status. No one should be allowed to dominate the decisions, or to claim a residual share in the net earnings, of a cooperative by virtue of any capital or other instrumental contribution made by him. A technologically advancing society should be a cooperative human community, not a trafficking or exploiting capitalist economy. This is the goal or the mission which the cooperators set to themselves.

Any form, procedure or practice which is inconsistent with this ideal, is unworthy of the support of cooperators even if it were conducive to business or professional progress. But, any modifications of procedure which, not being inconsistent with the cooperative ideal, promotes the professional interests of cooperators is worthy of the enthusiastic and unified support of all cooperators. No flexibility is permissible as regards the ideal or mission. Professional or business procedures not only may, but must, be flexible.

Cooperation among Cooperatives

THE whole subject on the need for reformulating Cooperative Principles arose out of two circumstances — the ideological and the other practical or technological. The ideological was obvious. Till the establishment of the Socialist State in Russia, the cooperators of the world were not much divided on the ideological ground. It is true that the first cooperators, the Rochdale Pioneers, were in a manner subjected to, or were the victim of, the Industrial Revolution in which capitalism — financial capitalism — was the principal feature. Then Cooperation travelled to Europe and to countries like Germany, from where the Indian Cooperators received inspiration. In contrast, the Movement in Germany grew principally in the environment of a feudal society of big landlords and small farmers and small tenants. These small tenants and farmers felt that they had a certain feeling of being left out, being the victims of a land monopoly. The Rochdale Pioneers had to fight the capitalist monopoly. The small farmers and tenants of Germany had to fight the feudal or landed monopoly. But, the pattern of society was more or less the same — either it was the pattern of the Rochdale Pioneers of England or that of the Raiffeisen type of Germany. It was not so wide so as to cause any rift.

After the change was brought about in Russia, all the cooperators, no doubt, were still present at the International Congress of Cooperators. But, it was not always a very friendly gathering, because the pattern was new. It was the Communist state; it was the new society, where there was central planning and everything, including the cooperatives, had to find a place there. So, there was a feeling among international cooperators that there was a new pattern of society— the socialist one. Our Indian society was also gradually becoming a Socialistic state. So, from year to year, and from Congress to Congress, this state of strained feelings between the Cooperators of one type of society and the cooperators of other types of society was growing. This controversy had to be ended.

Even, if it were not for the Socialist state, there were other reasons. Because of the variations in the rate of growth and in the size of the operations of cooperatives, the

Speech delivered at the inaugural function of the 5th Indian Cooperative Congress held at New Delhi on December 2, 1967. *The Maharashtra Cooperative Quarterly*, Vol. 51—October 1967-January 1968, p. 101.

simple idea of the Rochdale Pioneers, either with regard to cash trading or with regard to the treatment of reserves or with regard to the method of “one-man one-vote” could be pushed forward in all the stages of cooperative development. It was all right with the Rochdale Pioneers with a membership of 30, but with millions of investors in dozens of enterprises, it was a different demand on the cooperative organization. It was in this background that we have to have changes in ideologies, we have changes in technology. If the cooperators have to hold their own in ideological and technological circumstances, they must set their houses in order. They must decide what the basic principles were under which they should operate. When this Commission was appointed, as I said, among the five members of the Commission, four were from industrialized and developed countries, I was the only one who came from a developing country. It pleased my colleagues against my own wishes to put me into the position of Chairman. That was due more to the appreciation of the fact that India, both ideologically and technologically, occupied a middle position. We are not socialists, but are socialistic. We are not a highly industrialized country in comparison with other developed countries, while we are developing; we are a little more industrialized than many others. We were more or less in a position where we could perhaps understand the position of both the socialist and capitalist camps. It was for this reason that they thought that it was better to have an Indian Chairman than any other Chairman.

COOPERATORS VS. PLANNING

From my contact with veterans like Shri Vaikunthbhai Mehta and other ardent cooperators, the lessons I learnt were very useful in a number of ways. I learnt two things from this Congress. I shall mention these.

My mind goes back to a corresponding day at the very first Cooperative Congress in Bombay, when the First Plan had just been announced — not the Plan itself, but the idea of a Plan. We had to decide in independent India where the Government had to play an important role and which had accepted Planning. We had to decide what role Planning should play. Should the cooperators say “Planning is the business of the State, so we shall keep aside.” The cooperators also have a stake in the country. The cooperators also desire the development of the country; as a part of the national development, they want to figure as an important sector. They too want to have their place in that national development, of course, on terms which are respectable to the cooperators. After considerable discussion among ourselves, we then adopted the line which fortunately is being continued to this day.

As the cooperators have a stake in national development, so you have heard from the Prime Minister — and as we have been hearing in successive Congresses from the earlier Prime Ministers also — the Planning Commission also feels that they have a stake in the Movement. It is as true today to say that Cooperation is a policy of the State as to say that State Planning is also a policy of cooperators. This was a new angle to judge the relationship between the cooperators and others on the one hand and the State or the Planning organization on the other. My own approach to the subject has been that cooperators have a stake in national development as much as the Planning Commission or the Planners have in the Cooperative Movement. Together alone, the two will make for successful development and successful cooperation.

COOPERATORS VS. GOVERNMENT ORGANIZATIONS

This you can do in your own way. As in financial monopoly, you have the need for cooperators like the Rochdale cooperators, as an alternative, we see a voluntary egalitarian organization as in the feudal monopoly of the landlords in Germany — the Raiffeisen type, — where it is a voluntary, equalitarian type. Even in Communist societies, it is the Socialist state which controls everything. Even there the human spirit is the same. An individual wants to have as big a field for his own operation in as voluntary and free way as possible. It is pleasing to note that the Russian cooperator feels as buoyant as the American cooperator or the British cooperator.

This unity of thought among cooperator can be better expressed by a person like me because we have undergone both the experiences.

One other small point. There also, I might say how what we learn here can be of help to the Commission. Especially in the matter of the Cooperative Movement in South Africa, we can see as to whether we should have some inter-penetration between cooperators and government, or government organizations.

For instance when we have a national liberation movement the cooperators had as much power of national liberation as the other people. Naturally we set up co-operative organizations as a part of the national movement. The community, the State, the government, they also agreed to help us. We cannot expect the rest of the community to help us to go forward towards cooperative development if we have not exchanged a word with them as to how best we can do it between the governmental and the community forces on the one hand and cooperative forces on the other over a long period of development in this country. That is what you will see in the report of the Commission. Both these subjects have been dealt with, i.e. the relation of the Cooperative Movement with the rest of the State and the working of the cooperative institutions in the governmental sector. These have been greatly influenced by the Indian example.

The particular considerations which really made the Commission shout when I went through earlier discussions on the subject was the comparative neglect of Cooperative Education. Nothing is more important to the Cooperative Movement than education.

APPRECIATION OF COOPERATIVE PRINCIPLES

It does not matter whether a member of a cooperative pays his subscription or not; somebody else may give him the money as the Reserve Bank has been giving money shares. But, one thing nobody could give a member is the understanding, appreciation and devotion to the cooperative principles. He must realize that he is doing it not only for himself, but for his fellowmen. He will not only discharge the obligations he undertakes, but also those his fellowmen have entrusted to him.

Again, this is something more important both for the developing countries and also the developed countries. My friends from more developed countries will bear me out when I say something like an idealistic devotion to Cooperation, which comes naturally, when you are suffering, when you are a victim of monopoly. Now, what is happening in developing countries? Are they so rich that they do not mind paying little extra for cheap goods? They not only purchase goods that are costly, but they do not care what you pay for them. In a society, to develop education in Cooperation is even

more difficult. Even in advanced countries, they find that unless they train the members of the cooperatives, and those they want to invite to become members of the cooperatives, either the cooperative will completely wither away or cooperation will figure in a light. Therefore, both for the developing countries, education in cooperative principles, education in the management of cooperatives is essential for the success of cooperatives. This has to be done, if we do not want to deceive ourselves. The rest of the community and rest of the world is not going to wait for the cooperators to catch up with the general current of development. In this country, if possible and if necessary, we must work out our own development programmes.

PREVENTION OF MONOPOLY

Who is to blame for poorer societies or societies which do not have a minimum standard of living? They will rather think of becoming communists instead of waiting to learn the principles of cooperation and of doing business. Therefore, education in cooperative principles, education in cooperative business management is essential for the ultimate survival of the cooperatives. This is as much important for developing countries as for developed countries.

The last reference, I will make, is very relevant to us. There are so many instances, not confined to developing countries, where cooperatives very soon tend to become closed shops. Closed shop is another word for monopoly. Cooperation exists for preventing monopoly. Therefore, the first principle of Cooperation is open membership. Everybody is welcome to join a cooperative provided all the other natural conditions are satisfied. But, the tendency among cooperative institutions, as in other institutions, is when you grow you want to invite your friends to come and join as members. When you want a loan in excess of your limit, then you do not say that you are a cooperator, but once you become a good cooperator and a cooperative insurance man comes to you for insurance you will say that his rates are too high. We are not sure that you have sufficient strength. We would rather insure with somebody else. This is true not only of developing countries, but also of developed countries. Cooperative institutions which started to fight monopoly will soon develop into monopolies. That is bad for them, that is bad for the good name of cooperation and its future. Very few people know where science and technology are taking or will take us tomorrow. All possibilities of science and technology if they are to be utilized for the development of nations, naturally the governments or the capitalists, both internally and internationally, have to join hands. They are already forming their combines to take advantage of science and it has to come in a big way.

COOPERATION BETWEEN COOPERATIVES

If we sit as a monarch on our small field, we shall be swept away by the big steam roller of either the public institutions or by the governmental sector or by the big combines in the capitalistic sector. Even in this country, there are hundreds of international combines that carry on a ruthless war against the small industries and the cooperative industry. This example will be multiplied a hundred fold unless the cooperators realize that in isolation they will be broken by their competitors. It is only by coming together that the maximum chances of their survival and progress exist. This is true both internally and internationally.

There are well-known cases where the national union of a highly developed country is not prepared to purchase petrol from the petrol federation of another country even though both are in the International Cooperative Movement. Cooperative industry has given cold shoulder to other national cooperatives, but ultimately both of them lost the prospects of business. You know the principles of cooperation that were taught in olden days, i.e. one for all and all for one. Now, this is true not only of individuals but also of cooperative institutions. This is also true of National Cooperative Movements. Unless the cooperators of the world unite and dedicate themselves to the cause of progress and efficiency, ultimately they will be swept away by one of the two alternatives against which all of us have to fight. And, it is for the Commission to formulate the new principle, "Cooperation among Cooperators, Cooperative solidarity among all institutions." This is a principle to which all of us must subscribe.

Cooperation and Progress

IT IS over six weeks since the Commission on Cooperative Principles, which was appointed by the Central Committee in October 1964, submitted its report. Thus the Commission, including its Chairman, are functus officio. They have finished their task. I am, therefore, no more than a guest-speaker at this meeting, and I wish to convey to the President and to you all, my feelings of gratitude for having given me this opportunity of presenting in person some of the prominent thoughts which occupied the minds of the members of the Commission for nearly fourteen months.

Much as I appreciate the privilege of addressing you I am not without some hesitation and embarrassment about my position. I am here not to present my personal views on matters contained in the Commission's report, but to try and say how the Commission as a whole viewed these matters. I shall, therefore, try my best to keep individuality out of my remarks, and be no more, and I hope no less, than an exponent of the Commission's views. How far I shall succeed in this effort, I do not know. I would, therefore, make this reservation at the very outset: the authorized version of the report in the original should prevail over anything that I say to you if there is any contradiction between the two.

All the members of the Commission took special interest in the choice of words as they occur in the final report. It was this version about which all members were satisfied that it says nothing to which they object, and that it says everything that they think must necessarily be said, on any given subject. The report thus is the authorized text. What I say today is my own elucidation of the thoughts which have gone into the making of the report as it has finally emerged.

I do not know whether the overwhelmingly "Professional" composition of the Commission was the result of a deliberate design, or it was only an accident. It is true that four of the members of the Commission, including the Chairman, have been interested for long in the study and teaching of cooperation. I do hope that this Committee

Speech delivered at the Central Committee meeting of the International Cooperative Alliance held at Copenhagen, April 1966. Reproduced from *Cooperation Principles and Substance*, Gokhale Institute of Politics & Economics, Poona, India, pp 1-12, 1968.

will not on that account consider the Commission's report more academic than practical. In the first place even the professional element in the Commission has had personal involvement in, and experience of, cooperative activity in a variety of fields. Speaking for myself I can say that for over forty years I have been connected with the policy, organization and functioning of cooperative finance in India from the county to the national level. As special consultant for Land Reforms appointed by the United Nations and the FAO I had opportunities of studying agricultural cooperation in developing and developed countries in all parts of the world. My other professorial colleagues have had similar experiences. Even if all the four of us were less in touch with cooperative realities than we actually were, I am sure that the firm, and almost monumental, dedication to the cause of practical cooperative achievements of our colleague, Mr. Cowden, which he communicated to us with a rare degree of persistent enthusiasm, would have prevented us from being purely academic.

All of us, including Mr. Cowden, have studied cooperation, its theory, history and practice, not in one but in several fields. We have weighed the claims in broad acceptance of several enunciations and practices. Judging by the test of experience, and of attainment of cooperative objectives, we have expressed our appraisal of the differing practices followed by different types of cooperatives in different countries. We have tried to find out the common denominator in the varying forms of cooperative practice in different situations. As near as is humanly possible what is presented in the report is an objective account, rational analysis and balanced judgment. Taking cooperative experience as a whole, and relating it to the common objectives of cooperators of all lands, we have tried to set out what appeared to us to be the basic or characteristic features of the cooperative system as distinguished from other alternative systems of organizing economic activity in the context of contemporary conditions.

The Report of the Commission is, therefore, somewhat in the nature of an informed judgment based on material and experience made available to it by over 100 cooperative organizations in more than 25 countries, and by many individual cooperators with rich cooperative experience. The report, I am sure, will be studied by all cooperators for themselves, and they will be fully entitled to draw their own conclusions. I for one would be the last person to seek to use this opportunity given to me to address you for offering what would amount to an advocate's case. I would, on the contrary, offer a few observations which taken together with the Commission's report may lead to a fuller understanding of its contents.

Cooperation is something more than a way of doing business. It is a way of organizing an important part of our life in a manner conducive to the achievement of certain social and moral ideals. These ideals, enunciated by the Rochdale Pioneers, give moral sanction and material substance to what have come to be described as the Rochdale Principles of Cooperation.

Technological changes initiated by the Industrial Revolution, and the ever-widening limits of the market make individual or small-sized efforts increasingly uneconomic and inefficient. Large associations of persons having access to large volume of resources are indispensable to securing maximum possible progress in modern conditions.

Associations of persons brought about either by common employment by a capitalistic, i.e. joint-stock concern, or by common dependence on governmental employers have their own social and moral limitations, even if their economic benefits were granted

in full. A form of association in which the dignity and freedom of each individual citizen could be fully secured and in which all constituent members would have an equal status has to be thought of. The Rochdale Society at its inception was an answer to such need in the field of supplying consumable articles to members. Their own ideal, however, extended beyond this simple effort. They desired to end all elements of trafficking and to set up a community of workers where no single person would be able to make a profit at the cost of another. The essence of Rochdale Principles of cooperation is thus to help in the realization of an efficient and progressive society in which the dignity, the equality and the freedom of members would be safeguarded.

The tasks of the Cooperative Movement, to which a reference is made in the relevant resolution of the last Congress, thus include not only the efficient discharge of the functions for which each cooperative association is formed, but also its working in accordance with and in support of the common ideals and objectives of all cooperators. While reviewing the present observance and the effects of the Principles of the Rochdale, as formulated in the Report of the ICA Committee, of 1937, the full extent of the material as well as the moral, the economic as well as the social, commitments of the cooperative movement has to be taken into account.

A clear conception of the essential values in cooperative activity has become urgent as well as opportune because of the tremendous opportunities of progress created by scientific discoveries and by the growing unity of the world. If cooperative enterprises are to be able to utilize well in time the vast possibilities offered by modern technology they must be able not only to act in a big way, but also to set up highly sophisticated organizations which would be economically efficient without being cooperatively unsound.

Verbal formulations of cooperative principles which are adequate to achieve this balance between economic efficiency and cooperative soundness at one stage of technological development are not in all cases relevant for that purpose at a more developed stage of technology. Unless a satisfactory balance is deliberately established at each stage one or the other of the essential values in cooperative enterprise — material success and consumer or user democracy — is apt to be sacrificed. While the basic values of cooperation are of permanent significance their formulation in terms of organizational and operational practice has to be constantly checked in the light of changing structure of industry as well as of society.

In almost all countries of the world, old and new, the number and variety of cooperative institutions are growing. Under pressure of its own environment each institution is often led to improvise new ways of organization and procedure. In a conflict between material success in a highly competitive world and a scrupulous conformity to cooperative value the latter is more easily sacrificed if its formulation has been so rigidly made as to obscure the essential difference between substance and form. In a fast changing world rigid and, especially, briefly-worded formulations of what in essence are moral values, are not only unjustified, but they are also unhelpful. Often the practice of convinced cooperators in a challenging situation is more in conformity with ultimate cooperative success than a behaviouristic conformity with a rigidly formulated cooperative ritual.

A living and progressive system of cooperative enterprise must continue to make necessary adjustments in its practical operation. It is well-nigh impossible to evolve

a permanent or universal code of correct cooperative action. Reviewing the present stage of cooperative progress, in retrospect and prospect, some reformulation and elaboration of the most widely accepted cooperative values can be attempted. It would neither be appropriate nor helpful to try and do this by a simple acceptance, rejection or substitution of the forms in which the reputed Rochdale Principles have been traditionally expressed. The Commission considered it to be more appropriate and helpful to take each important aspect of cooperative organization and practice, and to outline its own views as to the basic cooperative value or virtue which deserves to be safeguarded.

MEMBERSHIP

In the establishment and functioning of a cooperative institution the composition of its membership is vital. Inasmuch as freedom and non-exploitation, that is, the abolition of gains made by one person at the cost of another, are essential cooperative values membership has to be, as a rule, voluntary and free — that is without any artificial restriction. Regulation of eligibility to membership arising out of inherent features such as a person's legitimate interest in the activities of a cooperative and his willingness and capacity to contribute to its efficient working is a natural and necessary precaution. Sometimes in the interest of operational or economic success of a single cooperative enterprise the size of its operations has to be limited. Except in such cases of natural selectiveness and limitation of size it would be normal to expect that not only does a cooperative association freely admit all eligible persons as members, but it would try and secure the support of as many members as possible. In matters of membership as in several other aspects of cooperative activity a policy of broadening the scope of its influence is implicit in the devotion of cooperators to the building up of a system of economic and social relations which they consider to be the only one consistent with human dignity, freedom, and equality of status.

DEMOCRATIC ADMINISTRATION

Members' claim to equality of status in a cooperative organization implies their equal participation in its administration. This is correctly represented by the phrase "one member, one vote". Several inherent and implied features of the operation of this principle have to be noticed. Where membership of a cooperative is of individual persons equality of status is correctly expressed by attributing equal share of authority to each. Where membership is distributed among cooperative organizations themselves distribution of authority in the joint cooperative may be equitably arranged in a variety of ways. Two alternatives emerge directly : one, equal voting by all constituent members — irrespective of their size of transactions — and, two, voting in proportion to individual membership of the constituent institutions. Both these practices are in wide observance in various countries and in various types of cooperative organizations. To ensure responsible participation some joint or secondary cooperative organizations have found it necessary to provide a proportionate share of authority dependent on contribution either to the resources or to the operations of the common organization. Even in such cases the difference between the minimum and the maximum share of authority in the common association has been kept within reasonable limits, as the principle of equal sharing of authority is only sought to be supplemented and not supplanted

by that of an equitable sharing. All these variants are legitimate attempts to give effect to the principle of equal sharing of authority by members in a manner calculated to promote the best interests of members and their organizations. A discriminating choice among these practices becomes all the more natural and reasonable in view of the growing importance of inter-institutional cooperation among cooperatives.

The round-about processes of modern business almost necessarily imply that direct participation by members in the authority and decision making of their organizations will be more and more limited. Because of size, as also of technical and economic complexities, representative institutions and professional direction naturally emerge in cooperative, as in other forms of business organization. Educating all members in the nature and special problems of their business, keeping them well-informed about affairs, decentralizing decision making are some of the methods dictated by democratic and egalitarian values which are characteristics of cooperation. In several countries experience of efforts made to keep the essence of democracy undiminished even in large and complicated cooperative business has been gathered in large measure. These efforts deserve to be studied and suitably adopted.

Democracy, or self-rule, implies that cooperatives, as cooperatives, are free from any outside interference or regulation by authority which does not extend to other than cooperative organizations operating in the same field. Self-rule internally and individually for each member, and externally for a cooperative organization as a whole is an essential condition of normal cooperative life.

INTEREST ON CAPITAL

It is a basic cooperative value that a cooperative is an association of individual users or participants with equal status, as contrasted with an association of stock-holders. Capital, in other words, is no more than an instrument, an input which is entitled, like other input or cost items, to receive a fair remuneration. Whenever a cooperative borrows capital in any form, from members or non-members, it stands to reason and it sacrifices no cooperative value, to remunerate the capital by a fair rate of interest. With growing demand for capital such a normal method of financing their operations will have to be adopted by cooperatives in increasing measure.

Raising capital by shares has different degrees of importance in the functioning of different types of business. Where a small and stable capital base suffices for the operations of a business a low stable remuneration by way of interest has been accepted by members as a fair and appropriate arrangement. In a few cases no interest is paid on share capital, which is more in the nature of a qualification or membership stock. But where share capital is an important source of financing the operations of a cooperative a return to it in the form of interest, which will bear comparison with prevailing long-term rates of interest in similar activities has to be adopted.

In fact some cooperatives which are engaged in capital-intensive business with fluctuating prospects a small element of uncertainty recompense may also be justifiable. It is important to recognize in this, as in other aspects of the business of cooperatives, that all bona fide and natural adaptations of general business practices which promote the success of cooperative business without sacrificing any essential cooperative value have not only to be tolerated, but welcomed.

SAVINGS OR SURPLUS

If it were possible for every cooperative business to anticipate and provide for all cost and investment items before determining the terms on which it would offer its services to members no net savings or surplus would normally emerge. For several well-known reasons this is not generally possible. Hence savings or surpluses, plus and minus, very often emerge. A *post-facto* disposal of these net items is a matter on which no basic difference of opinion among cooperators is noticeable. The net savings belong to members in proportion to the contribution made to them by each. But before net savings are ascertained due provision for all the legitimate items of sound financial management must be made. Once the net savings are ascertained, members of a cooperative may decide by their free choice whether they would claim their own share in proportion to their ascertained contribution or whether they would prefer to utilize the whole or any part of the savings for the further development of their common business or for providing common benefits and amenities.

The use of the English word dividend to describe a member's share of the saving has not been without its ambiguities and disadvantages. Especially the tendency to measure the success of a cooperative by the size of dividend, which is sometimes looked upon as a necessary feature, has been of doubtful validity. Surplus in the nature of an "unallocated earning — an unearned income" — is incompatible with cooperative business. Every saving or surplus is the result either of purely conjunctural or accidental factors, or of an imperfect system of setting the terms of relationship with members. It, therefore, follows that if and when there is a surplus, members should freely decide for themselves, according to the rules of each society, in which of the three ways — plough back, common benefit or distributed in proportion to transaction— it should be utilized.

RELIGION AND POLITICS

Speaking so late in the twentieth century, as in this year of grace 1966, it would be safe to say, I trust, that there is no reason why religion should play any more active role in the organization and functioning of a cooperative association, than that of a comparable business unit in the corporate sector. On the contrary, in view of the emphasis on human dignity, freedom and equality of status, which are high cooperative values it would be natural to expect that an attitude of toleration in religious matters would be shown by members of a cooperative towards one another. The same would apply to political affiliation and belief of individual members. In the sense of toleration and non-discrimination among members political and religious neutrality would be widely accepted as a natural and desirable attitude.

But speaking for cooperative organizations, or for the cooperative movement, it would be impossible, in fact injurious, both to cooperative ideals and cooperative interests, to say that they should or can be neutral to activities of political or governmental organizations. The cooperative form of organization is in many cases an alternative to other forms of organization. Unless the legitimate interests of the cooperatives are pressed on the attention of those who in modern societies have it within their power to help or to mar cooperative activity, both cooperative ideals and cooperative business will suffer. In purely partisan aspects of politics and on issues not affecting

cooperation the cooperative movement as a whole will certainly keep aloof.

In fact as avoidance of conflict, promotion of unity, and establishment of a just and peaceful order among men are the objectives of the cooperative movement, cooperative organizations should actively help in all possible ways, the causes of unity, freedom and peace. How in any given situation a cooperative organization may best promote the cause of cooperation generally, and of its own interests in particular, is a matter which has to be left to the free judgment of its members. Cooperators' attitude towards governmental organization and policies cannot afford to be negative. It has to be of a selective and positive action in support of cooperative ideals and interest.

BUSINESS PRACTICES

As cooperative organizations doing business have to care both for the immediate and long-term interests of their members they must follow sound financial and managerial practices. What constitutes sound practice is dependent on a variety of circumstances e.g. the state of education and resources of members, the nature of transactions and the structure of business. Practices such as cash trading which for one type of business at one stage of economic progress were considered financially sound and socially desirable have no longer the same compelling appeal. For their own soundness and progress cooperatives have to keep abreast of organizational progress. In fact being more concerned with the welfare of their own members and being secure in their support and direct participation cooperatives can blaze the trail for new and more successful methods of organization of business. Caring for the business aspects of their activity, cooperatives have to be equally concerned with moral and ethical values affecting individuals and society. Without being less successful as business, cooperatives can and must be more mindful of broader considerations of individual and social ethic than any other organization in society.

EDUCATION

Good business with equal human fellowship and high ethic is not an easy or an instinctive combination. Education, training and experience are absolutely necessary to create a preference and a capacity to develop the cooperative way of living and of doing business. For the individual cooperator to secure acceptance of this chosen way by his fellow men, and for the cooperative institution to ensure successful and progressive operations a continuous process of spreading the right type of knowledge among the right type of people is necessary. For sheer survival no cooperator and no cooperative can afford to neglect any aspect of cooperative education: education of all citizens in the meaning and merits of cooperation, education of members in appropriate cooperative as well as business practice, and education of administrators, managers and other personnel in the skills of their respective jobs. Not that every cooperative can directly attend to all these aspects of education. But all cooperatives have to be interested in them and have to make such financial and other provision for them as is appropriate.

In promoting the inter-institutional aspect of cooperation the most promising, as well as the most challenging, dimension is the international, or more correctly that of common action by cooperators of all parts of the world. The emphasis on common humanity and on non-trafficking, i.e. non-exploitative, business incorporated in the Rochdale tradition is a constant spur to cooperatives of the world to unite in appropriate

ways of democratic organization for the realization of these ideals. Before cooperative business is internationalized, cooperative thought and cooperative education will have to be more fully and more deliberately internationalized. The International Cooperative Alliance acting through its several organs has over the years achieved considerable progress in these respects. For further rapid and purposeful action a major effort at establishing a system of international cooperative education, and at intensifying and expanding promotional activity in the field of international cooperative business are urgently called for.

IN BRIEF

If the better business and better life which advancing technology render possible are to be secured for human beings in keeping with the ideals of Rochdale — human dignity, freedom and equality of status — cooperative institutions must continue in substance, to be organized and worked according to the dictates of the basic values enunciated by their rules. Changing formulations and changing practices, to meet changing economic and social conditions, are unavoidable. They are often necessary to secure cooperative progress. Subject to such variations, in space and in time, it is still true that (a) voluntary and unrestricted membership of all eligible persons, (b) democratic administration, with suitable structural modifications, especially for secondary associations, (c) limited interest on capital, (d) return of net savings to members in any of the three enumerated ways, freely chosen by them and (e) a continuing interest in cooperative education should characterize all cooperatives formed and operated in support of cooperative objectives.

It is specially opportune to add that if the maximum possible advantage is to be secured out of cooperative activity and if cooperative ideals are to be realized over the widest possible area, spontaneous and unrestricted cooperation among the cooperative institutions themselves must become more widespread than at present. All for one, and one for all — the cooperators' call to action, is at least as relevant to inter-institutional and international cooperation, as to simple cooperation among individuals. Correct cooperative conduct is to be measured not in comparative or quantitative terms of individual principles of cooperation but by the combined qualitative impact of cooperative ideals and practice on the actual life of the people.

The ideals of democracy, peace and human welfare are so widely accepted, and the opportunities of combined cooperative action on the part of the peoples of the world are so large that on the basis of a firm understanding of the objectives and basic principles of Rochdale, it should now be possible for cooperators everywhere to go forward to achieve progress over an ever-widening field. The Commission has attempted, in a historical perspective, to restate the substance and the implications of the Rochdale Principles to suit contemporary conditions and prospective opportunities.

As I said at the beginning, the report of the Commission has to be read independently by itself. No member of the Commission is committed to anything which the report itself does not say. I have only tried to present to you my own version of the pattern of thought which has helped members of the Commission to attain unanimity in an intellectual endeavour in which their deepest moral convictions were involved. I am sure each one of you will bring a similar but independent outlook to bear on the contents of the report.

Cooperation—A Balance Sheet

LIVING and working together with one's fellowmen on a footing of equality of status has an appeal to the class of people who look upon just and meritorious action as the ideal aim of life, and for whom all other things are a means to achieve this end. In all ages, and in all places, there have always been some who preached and, to the extent possible, practised this creed. In a world charged with an atmosphere of domination, greed and inequality these thoughts about human dignity and equality, appeared to be so strange that anyone who preached or practised them was called an Utopean, an Idealist. Such persons were suffered, sometimes praised, and occasionally ridiculed. But by and large they were ignored. While they did not appear to do any good, they did no harm to anybody but themselves.

In a limited way where the stark necessities of survival demanded common action on an equal or equitable basis it was habitually undertaken. It became a tradition, almost a religion. Especially in the life of small rural communities, exposed to the constant risks of disorder and natural calamities regular, seasonal and occasional, common action was prescribed as an essential way of social living. Anybody who shirked his duty to his "community" by having a "way" of his own, different from that of his neighbours, was denounced as anti-social being. Such a lapse would be considered to be even worse than a "sin", and the culprit would be severely corrected, outlawed, banished or even done away with. Wherever common action for survival is seen to be essential men have acted together as men, without any reservation. In other words they have acted up to the characteristically "human" law of cooperation and equality, as opposed to the non-human law of unchecked competition or survival of the fittest.

Cooperation, that is common action on a footing of equality which is undertaken to promote the legitimate interests of all is recognized almost instinctively as a desirable or a virtuous course of action. In traditional societies the limits, as well as the manner of operation of the principle of cooperation, as contrasted with all other forms of common action, are prescribed by custom and followed by habit, though there is always, in the background, the sanction of social obloquy for anyone who disregards his customary obligations. When, however, tradition is disturbed by some powerful factor it is likely to be replaced by a period of lawlessness out of which new norms of cooperative

action can emerge only after the lapse of time which is necessary for people to learn new modes of cooperation appropriate to the new age.

Whereas it is possible that tradition may be seriously disturbed by a variety of causes, such as the subjugation of one community by another, in settled communities and in modern times the most usual factor which powerfully disturbs the established pattern of human relationships is technological change. As a rule technological advance accentuates and enhances the demand for capital in a very much higher degree than demand for human effort. In many cases technological advance actually reduces the demand for human effort. As an accompaniment of technological change people are withdrawn from their traditional occupations and environment. They are required to enter into new relationships with people who either need one another's service, or are required to live and work together. Being confronted with the challenge of a new environment and the allurements of a new set-up of economic activity the prospect of individual advantage becomes the dominant criterion of a course of individual action.

Without any deliberate change of motivation or action on the part of individual members of a society industrialization, or *mechanization of economic life*, also tends to create mechanization of human relationships. An industrial revolution, such as the one which took place in Great Britain in the latter half of the Eighteenth Century, which is not simultaneously accompanied by a deliberate effort to create forms of business organization which are compatible with essential human values is apt to result in social conflict, exploitation and misery. The Rochdale Pioneers represented the group of uprooted persons who found themselves helpless victims of the capitalist employers and the owners of the tuck shops who worked in close association. Competition and freedom of contract were ideas which gave distorted results when they were applied to relationships between persons having extremely uneven bargaining strength. Unless limits are set to such notions so as to ensure that they do not violate other, and more desirable, values such as humanity and justice an altogether unmoral society is likely to emerge. The victims of social injustice consequent on an unregulated course of the Industrial Revolution would naturally be the first to desire to change the basis of human relationships to suit the requirements of a higher technological age. But irrespective of one's own personal or sectional interest, every intelligent and socially responsible person must ensure that he is not required to act in an unsocial or unjust manner in any of his dealings with his fellowmen.

It is on record that both during their own day, and in earlier years, the ideas which were incorporated in the manifesto of the Rochdale Pioneers were sought to be popularized and practised by some social reformers who themselves were not necessarily the victims of the new age. After several such attempts at organizing economic relations on a pattern which would be in conformity with essential human values, the Rochdale Pioneers came to shape their own effort in what they thought was a more desirable and practicable course. As their manifesto makes clear they desired human society to be a "community of workers", as distinguished from a confrontation of rival interests, dominated for the most part by the possessors of capital, which was of critical importance in the adoption of advanced technology.

Between capital (including land) and labour, whereas the protagonists of the industrial age would look upon both as instruments of production, the reformers would look upon capital as the only unmitigated instrument. Human labour is no doubt needed

as an aid to production, but both the exercise of labour, and the utilization of its products is an activity which encompasses the whole of the human personality of the worker. Association among all participants in an economic activity, whether they contribute land, capital or labour, is primarily a human association. Any form of economic association which is not based on the human equality of all those who join in it cannot, therefore, be justified in terms of essential social values. If the possessors of land or of capital were to be enabled to control the conduct, and share the products, of economic activity in such a way as to deprive the landless and capital-less worker of his due share in both, an anti-social result, exploitation, would follow. Relationship between human labour on the one hand, and capital or land on the other, must be such that the purely instrumental character of the latter two, and the essentially social or moral value of the former are appropriately brought out.

Quite obviously either individual capitalists, or joint-stock companies, employing human labour on purely contractual terms cannot achieve this, as by the very nature of their being, they claim exclusive control over decision making and over the distribution of the net product. If technological potential of material progress is to be fully utilized and at the same time, the equality of status among all participating citizens is to be maintained, voluntary cooperation among them is the only available course. The other plausible alternative that of a free democratic state organizing and controlling all economic activity, which calls for the association of more than one person or family would, even if it were operationally feasible, remove effective control so far away from persons directly interested and involved in a given economic activity, that the system would make workers of all grades subordinate to an authority which is only distantly involved and interested in what they are doing. Whereas a system of individual or joint-stock control would be obviously incompatible with equal status among workers, that of democratic state ownership of all economic activity would in substance be no less incompatible.

As a rule, therefore, it is to be preferred that any economic activity which cannot be made effective by the labours of a single individual or family, and which calls for association between persons, either for pooling their labour, or capital, or demand, should be organized as a cooperative association. Equality of status among the individuals who join being of the utmost importance the initial act of joining a group must be perfectly free of any artificial compulsion or restriction on the persons concerned. Voluntary membership and admission without artificial restriction, that is to say restrictions not arising out of the nature of the activity itself or the need for its efficient conduct, are thus essential features of cooperative organizations. Compulsory cooperation, or selective cooperation would be only a mechanical or physical act of joint operation without any moral or social merit.

As members of a cooperative have equal status it follows that any net surplus which emerges after the initial allotment to all items of cost and business reserves has been made should be equitably shared by them, so that any element of profit earned by superior holding of land or capital is obviated. The most natural way of attaining non-profitteering distribution of surplus is of course to redistribute it among members in proportion to members' participation. If with this possibility open to them, members of a cooperative association themselves desire that all, or any part of the surplus, should be utilized for further development of business, or for common amenities, or for any

other public purpose it would be their democratic right to do so. No such free choice would impair the cooperative character and the free and equalitarian operation of the association.

To recognize a brother and an equal in every human being, irrespective of his possessions, is not a thing which one does by inherited instinct. It can only be the result of a developed human culture. As an individual's choice in joining a cooperative has to be voluntary and free, a community's choice of a cooperative association as a desirable form of economic and social organization, in comparison with other available forms, such as individual, corporate and state capitalism, must also be free and voluntary, that is democratic. To enable and encourage members of a national community to make a free choice in favour of cooperation, believers in cooperation must continue to carry on the work of cooperative education. The need for such education is the largest among those who have not already seen the superior social merits of cooperation. But to bring the choice up to the social level, other more direct advantages of associated cooperative activity such as an efficient and economical working have to be indisputably established. This can happen only if those who are connected with the functioning of cooperative associations have been adequately equipped with knowledge and skills which ensure smooth and efficient working. No cooperative institution will survive and prosper unless an unremitting effort is carried on to make cooperative associations models of good cooperation and of good business, and to make their superior social claims known to all, especially to those who have not already been converted to cooperation. In this broad sense cooperative living would necessarily entail cooperative business as well as cooperative training and education.

Out of the moral idealism for a free, equal and non-exploitative living arises the attraction of the cooperative system, in comparison with the purely capitalistic or authoritarian systems. Wherever this idealism is strong and pure the practical steps needed to make a success of cooperative activity must be treated as matters only of detailed adjustment. These are bound to vary with time and place. Each community has to judge for itself how it can move forward with all the aids available to it on the way to progressive cooperative living. To ensure successful cooperative activity in its own setting, with other alternatives available to its members, each community must decide detailed forms of organization and activity. A high sense of social responsibility, and an unmitigated regard for equality and freedom of each individual member would of course be inescapable and essential characteristics of cooperative associations. These are features which constitute their special claim on the esteem and acceptance of their fellowmen. For the rest, they must be free to choose the instruments of their own successful and progressive working.

As cooperative associations for business, to be effective in a technologically advancing age, have to adopt methods of doing business appropriate to changing patterns of production, finance and distribution, they have also to integrate with other cooperative associations to realize the advantages of scale and of more direct inter-industry collaboration. Such a growing integrity among cooperative institutions is also desirable from the standpoint of securing for the cooperative way a readier acceptance from the national community. In a highly sophisticated social system industries and occupations are so interlocked that cooperative units may not always find it convenient to do business with another cooperative unit, unless all its essential needs are likely to be supplied

within the cooperative fold. All cooperative institutions for the most efficient performance of the activities in which they are directly interested, and for promoting the best interests and progress of the cooperative movement as a whole, must as a rule deal with cooperatives, unless doing so would harm the larger and long term interests of their members.

In view of the growing interdependence of nations in all respects, the limits of material as well as of intellectual exchange are being universalized. Whichever way we look at it, ideologically or functionally, the world is the limit for the progress of cooperation. Unless a favourable climate of world opinion is created for the cooperative way of social and economic association the participation of cooperatives in the ever increasing number of United Nations and allied organizations will be of a limited character. Efforts at promoting cooperative education and training must, therefore, be pursued on an international scale, as a necessary supplement to work done within each country for this purpose. While education in its broadest sense helps to create an opportunity, and training enhances the efficiency of cooperative personnel, the fullest realization of the advantages which potentially are open to cooperators, in competition with other systems of organization would depend largely on the scale and integration of their operations. This should be so obvious that special emphasis would appear to be uncalled for.

As a matter of fact, however, cooperative organizations from different countries, including countries which have normal trade relations through corporate or governmental channels, do not readily establish mutually advantageous relationships. Partly, this regrettable lapse is due to lack of information and of familiarity. Everything ought to be done by international agencies for the promotion of the cooperative way to improve the situation in this respect. The I.C.A. and several of its committees are already doing a good bit in this respect. More can and must certainly be done. But with the best support of sponsoring institutions, unless national cooperative enterprises themselves exhibit sufficient interest and energy in the matter enough progress cannot be made.

A major responsibility lies on the cooperative movements of industrially advanced countries to set a good example. This has not to be done where a net cost, rather than a net mutual advantage, would emerge. But enough enterprise and cooperative cohesion must not be wanting. There have been some instances of even very large cooperative enterprises seeking to patronize private or governmental sources because in the very short term they offer a slight advantage. Sometimes even such a short-term advantage is non-existent and the sheer indifference to a "foreign" collaborator, even though it is a cooperative association, is the predominant feeling. Between cooperators of all countries there should never be any other feeling but that of deep ideological and moral kinship. Once this is developed further cooperation in organizational and physical spheres must be left to be developed according to the exigencies and merits of each case.

While the need and prospects of international cooperative exchange are equally applicable to the developing countries better leadership and assistance from the developed countries would facilitate such exchange which otherwise would lag behind on account of the limited resources and inexperience of the younger cooperative movement.

To be healthy and lasting, cooperative associations entering the business sphere must be as conscious of the costs of their inputs, as of the quality and price of their

outputs. It would be unreasonable and therefore suicidal in the long run, for cooperatives to seek to sell worse service at higher price, or to hope to continue for long with their balance sheets in the red. Given good organizational skill and business prudence the emotional, almost spiritual, commitment of cooperatives to their ideals should help in reducing friction, and in maximising devotion to common interests. The example of successful cooperative movements in all parts of the world shows that intense support to the cooperative principle has been helpful in building up efficient cooperative businesses and, in many cases, being leaders in their respective spheres. On the contrary, some of the cooperative movements which were once hailed as the very vanguard of the cooperative cause are seen to be stagnant because of their unwillingness to move forward on the way to modernization of their business methods. They are thus losing both ways — as business enterprises and also as cooperative associations.

Cooperative enterprises have thus to be enterprises in the best sense of the term. What is peculiar to the cooperative type of enterprise is that in addition to the economic calculus of costs and benefits, and the resultant net return, there is a calculus and a balance sheet in terms of cooperative values as well. In a sense there are no “costs” or “burdens” so far as cooperative values are concerned. But there are sacrifices of some commonly prevalent advantages. That exclusive or monopolistic organizations must not be built up even when they are within the law, that as a rule members, irrespective of their contribution to capital and business, have the same share of authority, that unethical or unsocial practices even when they are not specifically countermanded by law, and would materially benefit the enterprise, must not be followed are some of the self-restraints or sacrifices which have to be observed by cooperators, and from which other forms of business organizations are substantially free. On the other hand the economic as well as the emotional involvement of the consumer or buyer in the success of the producer or supply unit is a special advantage of cooperative units. Such direct identity of interests between the buyer and the seller is impossible of attainment in any other form of organization.

The special costs or sacrifices involved in cooperative organization are not imposed by any external authority. They are forms of self-restraint which cooperators put on themselves so as to serve a higher social ideal than is followed by an average unit in the corporate sector. Such a devotion to a chosen ideal amounts to sublimating some of the natural instincts of men, on which competitive private business places primary emphasis. The moral and social idealism of the cooperative movement is its characteristic possession. One cannot be a constituent of this movement and not share, in faith and in practice, its essential preference for human dignity, equality of status, and pursuit of high social ends. Consistently with the unreserved practice of such idealism units of cooperative business may not only follow a variety of detailed organizational, financial and procedural methods which have been found by experience to be helpful to business success, but they may, in fact, experiment with a number of new ones with the confidence that the members will support all bona fide innovations. In a manner of speaking there is a two-fold enterprise in cooperation — one the normal business enterprise, and the other cooperative path-breaking.

We have not so far been sufficiently alive to the need and the advantage of recognizing the latter type of enterprise, enterprise in cooperative organizations. In fact, there has been too much of a tendency to look back to some classical model for almost

everything, and to make a virtue of sticking to precedent. In the age of rapidly advancing technology and humanism which has dawned on us such backward-looking inertia will spell an eclipse of that social idealism which is the main foundation and strength of the cooperative movement. The idealism of cooperators is their permanent contribution to the justice and refinement of human society. This must never be dimmed. In fact with the challenge of the modern technological age, and of integrated human living, the devotion to idealism must be all the greater. The "workers' community" or "harmony settlement" of which the early pioneers spoke has to be realized in substance in the everchanging structure of material and social life. Today, more than ever, the cooperative cause needs the leadership of persons who are as much devoted to the cooperative ideal, as to the improvement of cooperative procedures, to ensure justice, peace and prosperity in and among nations.

It is true that as an economic measure cooperation is seen more readily to be a shield for the weak, than a sword for the strong. If this is the only purpose of cooperation it may outlive much of its usefulness in opulent societies following democratic welfare policies. But if it is realized that cooperation is a desirable way not only of doing business but also of having essentially human relationship among those with whom we come into contact during the course of business the appeal of cooperation will increase, and not decrease with every further advance towards modernization and opulence. In a manner of speaking handicapped people and handicapped nations, will instinctively take to common action in support of common interests on a footing of equality. Many cooperative reformers, especially in colonial areas, offered the cooperative way to the needy and exploited sections of the community in a broad humanitarian spirit. Membership of a cooperative almost marked a person as of submarginal status. It is not surprising that the more fundamental significance of cooperative business — as good business and good human relations — is not easily realized in this environment.

A special responsibility lies on cooperators of advanced countries to sublimate their undoubted capacities of doing successful business and to uphold in all circumstances the moral worth of cooperation. This leadership is needed by way of propagating a world opinion, arranging for cooperative exchange of ideas and experience, and continuously expanding international cooperative business. Much is being said about this prospect and challenge. Something is being done within as well as outside the I.C.A. Much more, however, needs to be done. A constant review of cooperative experience and opportunities from the moral as well as economic standpoints has to be maintained to give the guide-lines of successful cooperative action. Institutes of training and research everywhere, and especially in advanced countries, should be expected to meet this need more purposefully and more successfully.

Cooperation in Developing Economy

FOR most of the industrially under-developed part of the world, especially those in Asia, the first half of the twentieth century could be described as being politically a period of colonialism which, in most cases, was becoming progressively more and more enlightened and humanitarian. In none of the countries of Asia with the prominent exception of Japan, which had an intensely nationalistic government caring for its economic progress, did the governments consider it their responsibility to promote actively the process of economic growth among the people. The people themselves, though they showed increasing interest in economic progress, were both ill-equipped and powerless. The ruling administration, at their best, confined themselves to ameliorative efforts all promoting cooperative organization among the poorest social units in an agricultural society namely the small farmers. It is well-known that in all these countries small farmers were mostly near or below the margin of subsistence, and they were generally weighed down under the social and economic burden of chronic indebtedness. It was, therefore natural that the first problem to attract the attention of economic and social reformers was that of agrarian indebtedness.

UNDER COLONIALISM

In the context of more recent developments in social thinking it is clear that rural indebtedness was not in itself the real disease. It was only a symptom. The disease was general backwardness. But contemporary thinking among the colonial rulers, when it was not frankly exploitative, was influenced by the fading economic liberalism of the nineteenth century which served as a shield against genuine demands of the colonial people for the protection and promotion of their legitimate interests. Any attempt on the part of the colonial powers to initiate a movement for economic growth among the people would have produced a disturbing influence on the social as well as the political fabric of the colony. This could obviously not be thought of as a natural or a desirable trend in prevailing policies of the colonial governments. Lack of a developmental policy stemmed from the peculiar political and economic conditions of colonialism. It is only with the end of colonialism in the underdeveloped countries that the

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history of developmental efforts on a national scale starts. This transition has now assumed an almost revolutionary significance on account of the fact that in most of the ex-colonial countries freedom from colonialism has been accompanied by the establishment of popular regimes. Active support of the mass of the people is essential for the survival of the new regimes.

WORLD WAR II

Socio-economic policy, of which promotion of cooperative organization is a part, is being shaped under pressure of these powerful liberating and progressive influences. Though backward in economic and industrial performance, none of these countries is any longer in the dark age in point of intellectual awareness. The Second World War, as is well-known, brought almost all underdeveloped countries very directly into that life and death struggle. Several among them had to suffer very badly. But one good effect of lasting human significance produced by this essentially unwelcome contact between the advanced and the less advanced nations was that the latter were awakened by the shock of a full consciousness of both the terrors and achievements of the age of science. Complex of inferiority long nurtured in these areas fell off almost overnight, and at the end of the war, the under-developed nations were recognized to be in a state of an almost unbounded expectancy of political as well as economic growth. This consciousness and expectancy have grown with the years, and it is against the background of these that the social policies of the developing economies have to be studied.

In a sense, many of the institutions carried over into the new era of political freedom and developmental responsibilities from the earlier ones of social and political acquiescence have taken on an altogether new significance. They are no longer, like the rural cooperative credit societies, mere defensive and ameliorative organizations of small farmers. They are intended to play the role of being conscious and democratic instruments of quick social and economic development. Early history of these and similar institutions, no doubt, helps to some extent in designing current policy which, however, has to be shaped more with an eye on the present and the future than for the past. Any survey of cooperation in hitherto under-developed economies, which ignores this revolutionary change that has come over both the people and the institutions of this region will miss the essence of the progressive movement.

UTOPIA ?

Cooperation as a principle of mutuality of relationship contrasted with extreme economic individualism or self-centred exploitation of opportunities of gain offered by one's fellowmen, has had a moral and a material, an idealistic as well as practical expression. Some idealistic reformers have at different times and in different places exhorted their fellowmen to live a life of complete mutual exchange of opportunities and possessions. The history of short-lived Utopias is too well-known to need repetition. The history of cooperative organization as an aspect of progressive democratic living does not commence with these Utopias. Its origins are related to those movements of social and economic regeneration of the handicapped classes which grew spontaneously as a result of the industrial revolution or more broadly, as a result of the major economic and political changes initiated in Western Europe during the latter half of the nineteenth century. A desire to seek common progress by mutual help, the principle, "all for each

and each for all", was to be found in all these attempts. But quite naturally, the actual form of association and the lines of common activity were inevitably influenced by the conditions and problems of each group which sought to resort to the cooperative method. For instance, the famous Rochdale Principles which have a historical priority over most other formulations of correct cooperative practice must be read in this environmental context.

CONFLICTS

The new class of British industrial workers was in moral and material conflict with the class of capitalistic employers and profiteering shop-keepers. The workers were individually defenceless and helpless. Solidarity among them was both desirable and essential. From the concept of solidarity flowed the corollaries of non-profit making association, with the surplus being redistributed in proportion to the value of member's purchases, and equality of status in the management. Open membership, another well-known principle of the Rochdale Pioneers, constituted an open invitation to all workers to join the movement. In days when the trade union movement had not been well advanced such an open invitation to join the cooperative would be an obvious help to promote class solidarity. Apart from mutual solidarity among the workers, historically, the most significant trait of the Rochdale store was that it succeeded as a business enterprise. There were other attempts at running cooperative consumer stores before the Rochdale Pioneers initiated their venture. But, unlike their less successful predecessors, the Rochdale Pioneers made good as a distributional store both by means of their more vigorous appeal to members and by means of their more businesslike methods. The material success of cooperative organizations is based at least as much on the positive contribution which they make to the improvement of the conditions of their members as on the idealistic response — to their declared principles which they succeeded in evoking from their adherents. In fact, successful cooperative leadership has always consisted in formulating principles and practices which will produce material progress in an acceptable moral and social setting.

EXPERIENCE

Though a large part of colonial territory belonged to Great Britain which evinced considerable initiative and interest in promoting cooperative organizations, the original forms of cooperation introduced in most colonial territories owed much to the experience of continental countries, and especially of Germany. The process of economic transition began in Germany when it was facing competition not only from British goods but also from British ideas. The concept of free trade among individuals and among nations which British thinkers, primed by their own fortunate experience, began to urge on the later adherents of industrialism was never accepted either by German scholars or by the German reformers. The Germans have generally shown a more instinctive appreciation of the value of corporate state action than the Anglo-Saxons. The German version of industrial revolution was very much more under the influence of a deliberate policy of national guidance and support than the British prototype. It was a part of national economic change that agrarian movements, including cooperative credit, assumed significance in Germany. It is not just a coincidence that whereas in Great Britain cooperative organizations started as defensive efforts on the part of industrial wage-

earners, in Germany the cooperative movement started with provision of financial assistance to farmers and artisans with a view to enabling them to improve their prospects as producers. In the case of Indian Cooperation it is a recorded fact of history that in 1893 the then Government of Madras, one of the most completely ruralized and economically depressed provinces of British India, sent an able administrator to study the system of institutionalized rural credit on the continent of Europe. Nicholson, the officer concerned, found great difficulty even in getting literature on the subject in English. He had personally to tour the countries of Europe, such as Switzerland, France, Italy and Germany and obtain first-hand information on the progress and working of their systems of rural credit. Nicholson kept an objective approach to all his experiences but he ultimately came to the conclusion that the Raiffeisen type of rural society based on compact units and joint responsibility has most relevance to Indian conditions. He was conscious that in transforming the German Raiffeisen model to suit Indian conditions many and sometimes major alterations would have to be made. But his main inspiration, and through him the main inspiration of the Indian Cooperative Movement has come from German experience as represented towards the end of the nineteenth century by the Raiffeisen societies.

INDIA — AGRICULTURIST COUNTRY

Nicholson was well aware of the fact that the objective of a reformation of rural credit in India was to be the promotion of agricultural development through which alone the problem of burdensome indebtedness could be solved. He was also aware of the extreme resourcelessness of most of the farmers, and of the grip which the usurer-traders had on them. While keeping the main principle of mutual aid and solidarity among members intact, Nicholson had recommended, somewhat on the model of similar steps taken in France, Switzerland and Austria, a comprehensive and constructive scheme of cooperative credit. Besides making the simple recommendations about registration and audit of societies he went on to suggest a number of positive measures designed to strengthen the farmers' institutions. Departing obviously from the then current trend of British economic policy, under compulsion of the pressing needs of an underdeveloped economy, Nicholson urged strongly the adoption of a policy of State subventions to the proposed institutions of farmers. He went on to say specifically that it may be advisable, possibly necessary, for Government at first to assist the nascent banks either by subvention or by guarantee. The subvention may be either assistance in working capital, or a more guarantee fund, to be placed as an inalienable reserve at the credit of the bank, or it may be both as in the Swedish mortgage banks. In the special conditions of India, a direct subvention by the State would not only be a source of immediate strength to the banks but such a public sponsoring would be, Nicholson thought, a mark of governmental recognition which would enhance their credit with non-official depositors and clients.

ASSISTANCE TO COOPERATIVES

Nicholson specifically recognized that public support may perhaps, tend to lessen the initiative and responsibility of members. In spite of this risk he was convinced that at the initial stage without such positive assistance cooperatives would not be able to make any headway either in building up their own strength or in initiating a movement

of rural development. In suggesting the matter of assistance all these considerations were kept in view. A loan without interest to cover initial expenses was suggested. A subvention up to 25 per cent of paid-up capital to be used as a reserve was another recommendation. Nicholson went on to say that up to one-third or even one-half initial share capital may be contributed by the State. Debentures were mentioned as an alternative and it was specifically recognized that to ensure progress on proper lines it would be necessary for Government to inspect the banks, and perhaps even to nominate a representative on their boards. Nicholson's main argument was that at the low level of earning and capacity at which most Indian farmers were, they cannot be expected to form sound and progressive associations of their own without adequate initial assistance from the State, that is, the community as a whole.

The *laissez faire* policy of the British rulers which was enforced in the dependent territories, however, came in the way of adopting such a positive approach to the potentialities of the cooperative movement, and Government eventually confined themselves to passing legislation which provided for registration, audit and inspection of cooperative societies, but which made no provision for any positive assistance towards building up their strength. The result was that for over forty years while the number of societies and their membership went on increasing, the actual extent of the contribution made by them towards meeting the financial and developmental requirements of the rural areas was almost negligible. The gradual weakening of the colonial and negative inhibitions of the economic policy of Great Britain in India was availed of by agrarian reformers in the country to reinstate the basic approach contained in Nicholson's recommendations. With the establishment of the Reserve Bank of India in 1935 started the period of active responsibility of Government for promoting sound institutional development of rural credit in India. The law which incorporated the Reserve Bank provided for the setting up of a special department of agricultural credit to attend to the needs of cooperative institutions of rural credit.

RURAL CREDIT SURVEY COMMITTEE

It is significant, however, that till the commencement of the process of Indianization of the Bank, it evinced no active interest in actually assisting the development of rural credit, and in fact, it was after the establishment of the independent Government of India in 1948 that the Reserve Bank began seriously to attend to its positive responsibilities for promoting cooperative credit for agriculture and allied activities. Especially since 1951, when the First Five-Year Plan of the country was initiated, provision of institutional credit for planned programmes of agricultural development has been accepted as an inescapable responsibility of the central bank of India. The Government of India and the Reserve Bank agreed that cooperatives at all levels, primary, district and state, were the appropriate institutions for mobilizing, disbursing and utilizing the resources of rural credit. In this they followed the spirit of the recommendations made 60 years earlier by an *enlightened British administrator on the strength of experience gained in a number of European countries*. The Rural Credit Survey Committee set up by the Reserve Bank of India in 1951, whose recommendations now guide the main policy of cooperative credit institutions had the benefit of even wider and more recent experience in India and outside. That Committee came to the same conclusion, as did Nicholson, that if rural economic development among small farmers was to be secured by demo-

cratic methods there was no other way but to promote and strengthen farmers' cooperatives to do the task for themselves.

FIRST ACT

In Germany itself Raiffeisen intended that the rural banks should act as business associations with social ideal. When the first Cooperative Societies Act was passed in India in 1904, the constructive or business aspect of cooperative association was thoroughly ignored. The result was that the Indian Cooperative Movement, started, sponsored and largely administered by Government, never at its best went beyond an ameliorative influence. It did not help the farmers to build their own strength for progress. The inhibitions in the policy of British Ruler coincided with the feelings of self-interest among the powerful trading and financing classes in India, which has traditionally been divided into somewhat rigid social and economic groups. This latter influence has become increasingly noticeable as cooperatives became more and more important in the economic life of the country. Especially among people with a vested interest in the backwardness of the peasants a body of thought was built up by which cooperatives were not only not helped to do good business, but it was thought to be almost morally and with and on behalf of their own members. Cooperative reformers of the present-day have, therefore, to act on two fronts. First, they have to urge on public authorities the justice and the need of active assistance to cooperatives and secondly they have to urge on them as well as on cooperatives that public assistance must be used in a businesslike manner, and that progressively the cooperative institutions must be able to offer their services on efficient and economical basis. The present cooperative policy in India is designed to serve this two-fold objective.

As an instance of this two-sided orientation may be mentioned the issue about the optimum size of a primary society. The twin objectives to be secured are, easy access and local solidarity imparted by small groups and secondly, the efficiency and economy of service both of which objectives are essential to ensure lasting progress. In his own day and for Germany Raiffeisen thought that a population of up to 2,000 extending over a cluster of villages if necessary would be found desirable for ensuring at least minimum economic strength. As is well-known with a change in circumstances these limits have now been considerably widened in Germany. Physical and economic conditions vary with place and time, and hence, any particular figure in terms of population or of permissible number of villages cannot be considered as sacrosanct. But the concept of ensuring adequate economic strength so as to be able to render efficient services is vital, and this is being generally appreciated in India.

DEMOCRATIC ORGANIZATION

Equally significant is another aspect of cooperative organization in respect of which Indian Cooperators tend to rely more on the spirit of democratic organization than on its verbal sophistication. The principle of cooperative affiliation or membership has been differently stated as that of voluntary affiliation and open membership. India is a democracy, and therefore, the voluntary character of membership has never been in doubt. In keeping with social policy and of experience elsewhere some institutional aids such as cheap credit and preferential supply of producer requisites are routed through cooperative organizations. In this context what has been in doubt is not the principle of

voluntary affiliation which is readily conceded, but that of open membership. If the original members of a cooperative body specially a body sponsored and supported by the State, are given unrestricted freedom to refuse admission to eligible candidates two evils would follow. One is that public resources would be used for the private benefit of a few and the other is that by artificially limiting the size of their operations the bodies would tend to perpetuate conditions of uneconomic and inefficient working. None of these evils can be tolerated by a democratic State which has adopted the policy of promoting planned development. Hence the fulfilment of the condition of open membership has to be assured by vesting appropriate powers of revision either in the Government department of cooperation, or in the federated higher bodies of the cooperatives themselves. In this as in other respects Indian cooperative opinion favours the use of higher organizations of cooperatives for the purpose of offering necessary guidance to primary cooperatives.

It is probably well-known that primary cooperative societies for the simple purpose of borrowing and lending cash sums are now almost forgotten in India. Primary societies as a rule are described as multipurpose societies. They undertake to supply producer requisites on credit, besides lending cash when necessary. They may also help in marketing the produce of members, and generally assist extension agencies in reaching the individual farmers. Wherever such an expansion in the services rendered by cooperative societies has been adopted, it has inevitably produced two results. The requirement of joint responsibility or unlimited liability, has been found to be both unsuitable and unnecessary where in a number of transactions responsibility has to be specifically fastened on individual members. There are a number of ways other than unlimited legal liability by which the corporate character of the working of a society is brought home to members. Recent developments of Raiffeisen societies have been guided along these lines. It is also recognized that the varied activities of purchase, sale and almost continuous collaboration with extension agencies of Government and with higher cooperative organizations, necessitates a kind of a level of professional assistance for which one may not confidently rely on honorary services. The employment of adequate trained staff on appropriate terms has become necessary under certain conditions. Raiffeisen himself allowed for remuneration to the accountant, and in any case experience in all countries has shown that continued efficiency of service in complex tasks involved in cooperative business cannot be ensured except by employing salaried professional staff working under the general direction of a democratically elected bodies.

AGRICULTURAL PRODUCERS

It is not generally realized that what is being attempted in India, and in several other similarly situated countries, is the creation of conditions in which the large mass of small producers, especially agricultural producers will be able to participate actively in a system of free enterprise. Not only as a democratic social value, but also as an aid to raise the level of farm production so as to bring within the influence of a market economy, it is necessary to broad base the regime of free enterprise among the growing number of small farmers who are being actively created as the result of land reform measures. To attain these objectives it is desirable that the exploitative and devitalizing system of agricultural advances by trader financiers should be replaced as soon as possible

by a progressive cooperative organization which is strong enough to attend to all the needs of the farmers. The State comes in to give the farmers an initial period of sponsoring or protection during which their cooperatives may be expected to build up their own competitive strength. The Indian Constitution and the Five-Year Plans place so much reliance on cooperatives that weakness of cooperatives will spell weakness in the democratic and welfare structure of the country itself. India's cooperation will be judged, at least in India, not so much by its quantitative expansion or by its conformity to orthodox doctrines developed in other climes, as by the contribution which it succeeds in making to the realization of the three major objectives enunciated in the Constitution, namely, greater employment, greater quality and greater welfare.

FRAMEWORK OF PLANNING

Apart from the overall objective of democratic cooperativization which is endorsed by the Constitution, the needs and pressures created by national planning have also to be adequately and appropriately met. In all spheres, agriculture, industry and trade, large scale investments are planned, both in the public and the private sectors. The latter is largely occupied by major units, and if the demands created by the former are also left to be competitively met there is no doubt at all that the so-called free enterprise will be the monopoly of the few big enterprisers. Neither democracy, nor cooperativism nor broad based free enterprise would thereby be served. Anticipating the possibilities the Indian planners have provided for building up a cooperative sector in the economy, especially in agriculture, so that the large mass of independent producers may be enabled to contribute towards the productive efforts of the plan, and to share in the returns of large-scale national investment. The use of public funds in support of cooperative organizations is intended not only to strengthen them directly, but even more so to evoke an increasing effort of saving and investment on their own part. A matching proportion between government contribution and owned resources of cooperatives is generally maintained, and government contributions to fixed capital are intended to be automatically retirable. In some special cases governmental personnel is spared to ensure good initial performance by cooperatives. But this measure of assistance is accompanied by a countrywide network of institutions of cooperative training which every year turn out personnel by the thousand to take their rightful place.

SELF-IMPROVEMENT

It is hardly necessary to elaborate the point further, namely that in the conditions in which the new democracies of the ex-colonial territories find themselves, the immediate choice is between two dependences. In the name of free enterprise and voluntarism, we may perpetuate and intensify the dependence of the small men on the few trader-cum-financiers who have neither the inclination nor means to promote a developmental effort on the part of the small enterprisers; or we may use the resources of the democratic state to build up people's organizations primarily for self-improvement and economic development and to guide them to eventual self-reliance. None of the two alternatives is without its risks, but both politically and socially the latter alternative has to be preferred for immediate as well as long-term benefit. The tradition of State assistance in promoting cooperative effort among the people is of very old standing in most of these countries. Its use for a more progressive and constructive purpose is

easily understood and appreciated. In fact, before the formal initiation of policy of greater State assistance to cooperatives in 1955, in at least a few States, where the cooperative movement was strongest, by natural evolution of policy, State assistance had come to be offered by the newly established democratic government to ensure further progress and more widespread participation by cooperatives in the programmes of rural development.

India is planning for democratic welfare, and in doing this experience of all democratic countries is being taken into account. If the nation is to reach the critical state of a "take-off" or a clear transition into an industrialized economy capable of self-sustained growth the mass of producers must be ideologically and materially equipped for the effort involved in the process. Experience of half a century of cooperation has convinced Indian cooperators that unless the actual results of cooperative action in the field of economic development are demonstrably convincing, even the few people who are members of cooperatives cannot muster enough self-confidence and progressive courage to make the best of their opportunities. This is the experience of cooperators in other underdeveloped countries as well. If the large reservoir of potential enterprise, leadership and talent available among the mass of the people is to be activated and utilized through democratic methods, cooperative efforts made by them have to be suitably assisted by the whole democratic community. In a very real sense as there is the primary cooperative at the base, there is the whole cooperative community of the democratic welfare State. It is logically and practically impossible to think of the one without the other.

In so far as the national community acts in furtherance of the legitimate freedom, strength and democratic participation of the cooperative organizations, it would be acting in conformity with the principles of cooperation as well as of democratic development. It has not been easy to make the new democratic governments aware of their responsibilities towards organized efforts made by small people for their cooperative improvement. Left to themselves very often the young and under-equipped democracies are tempted to lean on the support of the big individuals and combines from among their own nationals and occasionally even from among foreigners. Those who represent the small farmers and small enterprises generally, have actively to agitate to ensure that adequate concern is shown by their governments for providing developmental opportunities for them. State assistance in suitable forms, which naturally entails some precautions for ensuring proper use, is more often a demand of the cooperatives themselves, rather than being an encroachment on the part of the State. This has been a continuous feature of Indian cooperative progress during the last few years.

COOPERATIVE SUGAR FACTORIES — SUCCESS

The outstanding example of cooperative sugar factories may supply a case in point. The Second Five-Year Plan provided for setting up a few dozen sugar factories. Normally the big financing and industrial houses would have staked their claim for these and they would have got away with it. But that would have left the sugarcane farmers without sufficient incentive for improvement as most of the benefit of the growing demand would have gone to the big operators in the processing industry, as has happened in so many other cases. Those who had some experience of running the few cooperative sugar factories which already existed, therefore, agitated for having all the new expansion

reserved by preference for cooperatives. This was done as the claim coincided with the cooperative, democratic and welfare principles of the Constitution. The small farmers of areas where sugarcane was being actually raised or was capable of being raised, were enthused with a desire to mobilize all their saving and exert to their utmost in other ways to form a cooperative sugar factory. To make a constructive use of this widely shared spirit of enterprise, two things were found to be essential.

One was the successful demonstration, which was already offered by one or two outstanding successes of cooperative sugar production. The other need was for initial State assistance to the new cooperatives in all possible ways such as retirable share capital, guarantees and technical assistance. This assistance was forthcoming, and as a rule it was granted in a self-liquidating manner and through federations of the cooperatives themselves. The entire quota of sugar factories included in the Second Plan was taken up by cooperatives. There is no reason why the same should not happen in the Third Plan period for sugar and for most of the other processing industries. The developmental and the welfare effects of successful cooperative processing helped by the State have been tremendous. The farmers as a class feel a new confidence in themselves and a new spirit of enterprise for carrying out the goals set for the national economy. Already the most important task for government in some cases is to arrange for a planned withdrawal of its association in such a manner as would ensure that the cooperatives would neither be left defenceless, nor would they be encouraged to develop sectional attitudes which are apt to harden into anti-social vested interests. These problems have to be suitably tackled. But what is of importance at this stage is to take note of the fact that State sponsored cooperative effort has fully justified itself in developmental and organizational terms.

EXAMPLES SET

This strikingly successful experience of cooperative sugar factories also illustrates the beneficent and progressive influence exercised by some of the newer forms of cooperative organizations which are being developed to meet the requirements of democratic association as well as of planned development. Each sugar factory is itself a cooperative effort on the part of canegrowers, so that all surplus in the business of sugar production is divided among members in proportion to the cane supplied by them, and all decisions are taken in a democratic way, each member having one vote irrespective of the size of his share-holding or cane supply. But the sugar cooperatives in a State form a federation of their own, which not only helps to protect their common interests, but also acts in large measure as a common buying and selling agency and supplies high level technical services to its members. The working of both, the factory cooperative and the federation, is perfectly democratic, but governmental representative is associated with their work. This representative acts as a liaison officer between government at higher levels and the cooperatives. As the cooperatives are playing an important part in the national plan, and as governmental finance is involved to some extent, government is interested in ensuring that the progress of the cooperative units is on sound and socially progressive lines. A number of non-producing members, either those who represent cooperative central financing agencies or those who are just cooperative reformers and financial experts, are also associated with these federations. Decisions of the federal body are taken as a consensus of opinion among all these, the government has no speci-

fic veto in each case. A balanced discussion on a socially responsible level is ensured by the participation of government and expert members. This multi-sided and federal guidance of cooperative units has been found to be desirable both for efficiency and economy in management, and for pursuing a socially helpful and responsible policy towards the objectives of welfare planning.

NOT SPONTANEOUS

It has been said sometimes that cooperatives in India are not spontaneous organizations of the people, that they are creations of State policy. Historically this is true, but in the context of changed objectives of State policy which include greater equality and greater welfare through democratic association the identity of cooperative and State policy is being more and more emphasized. There are a large number of even advanced countries such as U.S.A. where, as in the days of the depression, cooperative organizations of farmers were selected for giving effect to the rehabilitation programmes of the State. So long as the policy of the State is what cooperators would desire for themselves, and so long as the state does not ask in return for its help what the cooperators would themselves not honestly desire, being creations or instruments of State Policy, far from being a hardship would be a privilege. The cooperative sugar factories prove this. Current cooperative policy in India is rarely the result of official initiative. As a rule a variety of experiments are always going on all over the country and when one of these comes to the stage where it appears to have earned wide appreciation some public enquiry precedes its adoption as State policy for the time being. No State policy is treated as absolute and wide variation to suit local conditions has to be permitted.

As early as in 1945 an expert committee on agricultural credit had suggested the establishment of semi-governmental agricultural credit corporations to meet the credit requirements of small farmers who would normally not be accepted as members by cooperative organizations which base their credit policies largely on estimates of readily realizable assets. This recommendation of the committee was treated as a reproach and a challenge by cooperators. At least in one cooperatively-developed State, Cooperative financing institutions offered to meet the requirements of production credit of all farmers provided suitable technical assistance was offered to the farmers by the governmental department of agriculture, and provided certain special financial aids were assured by government. The Government of the State agreed to give such assistance, and the success of the resultant system of liberalized and integrated credit proved of considerable use in chalking out a national cooperative credit policy when development planning for the vast body of small farmers came to be adopted. It will thus be seen that neither doctrinaire nor authoritarian trends are operating in the process of evolutionary change through which Indian cooperation is passing. Such changes are genuinely based in the needs and experiences of the cooperatives themselves, and their performance is under continuous study by cooperators and others.

RELATIONS

The change in the democratic composition of the Government of India is sometimes not fully appreciated. The Government official who works with cooperatives is no longer a bureaucratic authority answerable only to his higher officer, who in turn has to report to a foreign Government. The cooperative official is now a servant

of the cooperation minister, who himself is often as good a cooperator as any one else. In any case the minister for cooperation shares in the declared cooperative policy of the State and he is under the influence of prevailing opinion in the country. As large number of people are being drawn into the cooperative organizations, and as these are catering for a growing variety of needs no minister for cooperation, irrespective of his party affiliation can afford to neglect genuine cooperative opinion. The lines of distinction between official and non-official participants in the cooperative movement can no longer be drawn so sharply as they were when the non-officials were all national, and the officials were all agents of a foreign bureaucracy. All participants in the cooperative organizations, especially those who fill responsible positions, are being educated in a common system of training organized jointly by cooperative organizations, government and the Reserve Bank of India. An identity of approach and common responsibility for sound and progressive working are thus ensured.

ROLE OF GOVERNMENT

These healthy trends were already in evidence by the time when planning was initiated in India, and they were reflected in a resolution passed at an F.A.O. Technical Meeting on Cooperatives in Asia and the Far Eastern countries held at Lucknow (India) in 1949. This significant resolution stated, among other things, that :

“The role of Government in relation to the cooperative societies should be one of active usefulness intended to stimulate cooperative enterprise, to guide it and to keep it on sound lines without either attempting to compel or to replace local initiative and self-help. Government should, in addition, promote conditions under which cooperatives will thrive and develop,” and “While recognizing the essentially voluntary character of the cooperative movement, where there is need for provision of a common essential economic service, or where the larger interests of the community require it, a resolution passed by a cooperative society should be made binding by law on non-members provided that a substantial majority of the persons and economic interests affected by such resolution accept it.”

This is the interpretation of cooperative principle on which all healthy purposeful cooperative activity may with propriety be based. It is in this faith, for instance, that the Danish Government required all exporters of dairy produce to conform to cooperative discipline.

India is a vast country with physical and economic features which are widely variable. Moreover, it has a federal Constitution under which most of the welfare functions are within the sphere of responsibility of the constituent State Governments. Averages and aggregates for the whole country, are, therefore, not fully significant. But against the background of an overall change in the nature of government and in cooperative policy some indication of the quantitative development of cooperatives can be obtained from the national figures. In all discussions about cooperative progress the change in primary societies, credit or multipurpose, is most revealing. In this class, between 1950-51 and 1957-58, striking progress has been registered. The number of societies had increased from 1,15,000 to 1,67,000 in spite of a movement for amalgamation of small societies which went on in a number of areas. More significant is membership, which increased from 5 million to over 10 million. Paid-up share capital of these societies

rose from 84 million rupees to 282 million rupees, of which 22 million rupees were contributed by the State. Deposits with societies increased from 45 million rupees to 86 million rupees. The working capital of societies, which besides share-capital, reserves and deposits includes borrowing from central cooperative banks and the Reserve Bank increased from 410 million rupees to 1,300 million rupees, enabling the societies to meet the credit needs of larger number of members to a larger extent than was possible before the initiation of the new policy.

LOANS

When it is remembered that loans are being increasingly given by reference to production needs assessed by managements of societies in consultation with the staffs of the agricultural department the effective contribution of cooperative credit to rural economic development will be more obvious. The practice of giving credit in the shape of seed, fertilizer and implements supplied through agencies which work in close cooperation with developmental authorities is becoming more and more general. According to the principles of integrated credit, long-and medium-term loans advanced by cooperative institutions are also related to programmes of land development and improved tillage. Recoveries of loans are expected to be made through marketing agencies having a federal cooperative character. Progress in cooperative marketing has not been as rapid and as firm as it has been in the field of credit. Social factors as well as governmental policies in relation to agricultural prices are partly responsible for this slow progress. These, however, have to be attended to, and even with this limitation the extent of productive development brought about through cooperatives has been very striking.

PLANNED PROGRESS

Central cooperative organizations which are run on more obviously businesslike lines, and which draw support from urban and semi-urban elements have helped materially in strengthening the rural cooperatives and in helping several forms of non-agricultural cooperation to grow. Reference has already been made to sugar factories. Generally, marketing, processing, small industry, housing and consumer stores have been recipients of considerable assistance from these organizations. Central cooperative organizations strengthened by measured support from the State have taken an active part in promoting further cooperative development in all spheres on a sound footing. Though progress has not been evenly distributed and though in several respects the defects which have their origin in inexperience and narrow outlook have to be closely watched, there is no doubt that cooperation is playing a very significant part in the planned progress of the country, and millions of people who had been devoid of hopes of opportunities for productive enterprise are now enabled, individually and in association with their fellow-men, to make a greater and greater contribution towards promoting their own and the nation's welfare.

Though underdeveloped countries are usually grouped for policy discussions in single class, actually they have significant differences among themselves. The state at which their social, economic and political progress has arrived is a very crucial consideration. In three respects, however, most of these countries show common characteristics, they are primarily agricultural and rural to begin with; their social system is one of a large mass of poor peasants dependent on small number of powerful and rich persons;

and progress for them is not possible except with active initiation and support by the community as a whole, that is by a democratic State. As Mr. R. K. Harper, writing in the Year Book of Agricultural Cooperation, 1958, states :

RURAL CONDITIONS

“Some prevalent and longstanding village conditions seem almost universal throughout Asia. One need not visit more than a few villages in most Asian countries to find in each the following circumstances : (i) the majority of the village land, the bulk of its wealth and its most powerful influences are in the hands of sometimes one individual, but more often a group of individuals, or a faction or a party whose interests largely order the lives of the majority of the villagers and determine the conduct of village affairs; (ii) the villagers being habitually ahead of their incomes in their expenditures, usually sell their crops or other produce prematurely, having no tide-over resources to enable them to wait for more profitable markets; (iii) disposal of produce of the villagers is in the hands of either the influential individual, group, faction, or party mentioned in (i), or in the hands of external middlemen, money-lenders or tradesmen operating solely on their own interests or in collusion with the powerful influences in the village. It is only through combined and determined cooperative effort that the difficulties can be overcome.

In most colonial territories of Great Britain local administrations confronted with conditions of economic backwardness and social exploitation have found it necessary to sponsor programmes of cooperatives, supported by the State in varying forms and measures, which find their justification not in any prior doctrine, but in the positive results obtained by hoping to solve a pressing problem. Hope and experience of better economic conditions for the down-trodden can alone create the possibility of self-reliant and self-respecting action among them, which is considered desirable by promoters of a regime of free enterprise. Such is the lesson of colonial cooperation whether in Asia or Africa. For instance, experience in Uganda, Tanganyika, and in several other colonial territories, shows that it is practically impossible for a country to develop a strong cooperative marketing movement unless whatever statutory regulations are in force governing the sale of the main crops are favourable to cooperative development. In Malaya and Eastern Nigeria, Government has participated with good results in financing and managing cooperative processing units as an initial measure of assistance to cooperatives to be able to stand on their own legs and to manage their own affairs.

NON-EXPLOITATIVE

The essence of cooperation consists in establishing non-exploitative economic relationship based on mutual advantage. Social democracy seeks to establish similar relationships in all aspects of human behaviour. Since the end of the World War II the need to establish cooperative, as contrasted with aggressively competitive relationships among nations is coming to be appreciated as a normal rule of conduct. When the ideological as well as the physical limits of cooperation have been so broadened, it is hardly justifiable to seek to narrow down the circle of cooperative relationships to those who conform to some esoteric standards. Cooperation is what cooperation does, not merely what it proposes to do. If in fact a pattern of cooperative organization appears to be the only feasible and worthwhile method which would put the man of small means

on his legs, and would help him, in cooperation with others, to be self-reliant that pattern should be welcomed. If it entails some element of social assistance or control it would be a case of careful scrutiny before, during and after these elements have been introduced into the cooperative organization.

No one would consider outside help or control as values desirable in themselves, and yet a number of large individual enterprises, and even nations, have welcomed such conditional assistance when it appears to be justified by considerations of mutual advantage and eventual development. It is in this selective evolutionary, and discriminating spirit the questions of cooperative policy, as an instrument of developing economy and democratic welfare must be approached. Cooperators in India, and in several other developing countries, are fully aware of their responsibilities in the matter of realizing by their efforts a community which is economically progressive, socially equitarian, and organizationally self-governing. Progress of cooperation in India during the last decade creates a hope that their efforts have not been in vain. Cooperators from other countries, especially the more developed countries, whose experience has been gathered in other and often more fortunate circumstances, would well serve the cause of cooperation by establishing greater mutual understanding and collaboration with their colleagues who are struggling with the problems of cooperative progress in the new democracies which are yet undergoing the process of their social and economic transformation.

Cooperation and Economic Growth

VAIKUNTHBHAI was a very close student of British socialistic thought, and his daily reading included periodicals like the *New Statesman*. Though he appeared to be working in individual fields, such as sarvodaya, Khadi and Village Industries Commission and cooperation, all these things were done as best to lead to a social transformation in which the essential values of social justice and human progress, would be ultimately realized. The relationship that exists between cooperation and social transformation is really the main attraction of cooperation to a progressive citizen. Economic growth is a part and parcel of human progress in general, of which it has to be an instrument. It is in this context that relative importance of cooperation and economic growth must be clearly grasped.

This intrinsic and far-reaching importance of cooperation was not generally realized when Vaikunthbhai entered the field of cooperation, as early as 1905. The MacLagan Committee on Indian Cooperative Development was then at work. Vaikunthbhai's father, Shri Lalubhai Samaldas was a member of the committee. Vaikunthbhai was acting as secretary to his father. It is very unlikely that in 1905 either MacLagan himself, or any other members of that Committee ever thought in terms of social transformation which later became with Vaikunthbhai almost his second nature. His interest in cooperation was related to his wider interest in promoting the economic and social growth of the mass of Indian people. He himself lived very simply, almost in austerity, but he was no lover of enforced chronic poverty. Voluntary poverty as an act of self-discipline is, of course, a different thing. He could command the means of better physical life, but he did not use them for that purpose. He preferred to share, as much as he could, the lot of his poorer countrymen.

VAIKUNTHBHAI'S APPROACH

Vaikunthbhai came into contact with the realities of rural life as a voluntary worker in famine relief. Famines even now are dreadful things, but famines in the early years of this century were too dreadful for words. Failure of rain in any one part of the country would then mean thousands of deaths and long years of economic pros-

tration without any notable relief coming from anywhere. Vaikunthbhai had realized that if the higher values of life are to be practised in a positive and creative manner, they require adequacy of material means: that, to live well, we must live. Unless we secure by our individual and collective action a growing volume of the means of existence, the resources for happy and progressive life, life of active and positive virtue will be impossible. In doing everything that he could to promote the economic interests of his poorer fellow beings, Vaikunthbhai was working also for their moral betterment.

It was for this reason that after a good deal of comparative study and long deliberation, Vaikunthbhai preferred the cooperative way of social and economic transformation to any of its alternatives, viz., individualism and statism. Unless the way of earning one's living was itself based on high moral and social principle, the latter cannot be realized. Vaikunthbhai believed that if economic growth is attained by moral means, it is also more likely to be utilized for a moral purpose. The so-called free or individual enterprise has some apparent advantages. As an aid to operational efficiency, probably the freedom to hire and fire, as well as the prospect of unlimited success matched by that of utter failure, may be counted as favourable factors. As against this the wastage both of human and material resources entailed in this process, and the social injustice of excessive concentration, cannot be ignored.

STATE-PARTNERED COOPERATION

From the beginning of this century the contrary doctrine of State Socialism has also been attracting considerable attention. Especially during the period of the Great Depression of Intra-War years, this philosophy evoked wide support. For promoting quick, stable and broadbased economic growth an equalitarian and authoritarian regime was considered to be an advantage. While in the initial stages of destroying the old and creating the new this doctrine has produced some salutary results, as a normal way of living and operating a progressive economy, authoritarianism has been found to be defective, often a remedy which is worse than the disease.

In view of the acknowledged shortcomings of both, extreme individualism and extreme statism, there is some justification for the view that it would be better to have a system in which while attracting all the support that comes from the community as a whole, and while leaving as much scope to individual action as possible, all associated in collective action should be put on a cooperative basis, ensuring freedom as well as equality. For instance, it was in this spirit that later on when we first began to talk of the Rural Credit Survey Committee the idea of State-partnered cooperative institutions appeared both necessary and natural. The thought that went into the making of the scheme of cooperative development, with which that report is associated was essentially Vaikunthbhai's thought. As Minister for Cooperation in the then Bombay Government he had actively promoted it in the Bombay State. The recent progress of Cooperation in Maharashtra and Gujarat under this policy is but a vindication and part fulfilment of Vaikunthbhai's faith and policy.

The adoption of a policy of democratic planning by independent India gave cooperation a new opportunity. The plan specifically welcomed cooperatives as the chosen method for promoting agro-industrial development. The democratic State and the individual cooperator, both could operate together sometimes in one and the same organization, for the realization of the maximum economic development consistent with

equality and freedom. Contribution by the State to the capital of a cooperative may in due course become unnecessary. A democratic State, especially a democratic State that adopts socialist values, cannot however be indifferent to the essential characteristics of cooperation. The best method through which both democracy and socialist values can be realized is that of cooperative action. The whole pattern of the recent programmes of cooperative development in India has been built on these foundations.

COMBINATION OF THREE SYSTEMS

Even more important than self-government is self-employment. If you enjoy self-government, i.e., you have a vote, but you are not employed by yourself, that is, you are, what others have described, as 'a wage slave', your experience of free action is very limited indeed. With science and technology developing very fast, one cannot do everything by oneself. One can become an artisan but one cannot have and operate even a small plant by oneself. We cannot utilize modern technology on so small a scale. A modern society can promote and utilize technology in the best possible manner by combining in proper measure all the three ways of operating an economic system—individual, cooperative and public.

It was in the full knowledge of all these factors that Vaikunthbhai wrote an important article in the **Indian Cooperative Review** of July 1965. This article has been published after his death. When Vaikunthbhai wrote this article, the article on "Fundamental Cooperative Principles", he had at the back of his mind the responsibility to restate cooperative principles against the background of this controversy between the tradition and the newer forms of cooperation. Cooperation is essentially a human and a moral value which under varying social and political conditions finds appropriate expression. Vaikunthbhai's appraisal of traditional forms of cooperative principles and his suggestions for restatement have wide and abiding significance.

To begin with, what is cooperation? Vaikunthbhai was not completely satisfied with the current formulation and he corrects it. He says, "It may be useful to give the definition of the term cooperation, using the definition in the popular and not in the logical sense. Cooperative societies are defined by one writer as 'business undertaking owned and operated by voluntary association of persons or organizations in order to provide themselves with work and wages or with goods and services'." The cooperative organizations are business organizations like any other enterprise and that their purpose is to lead to a rational or economic objective by the efforts of its members is an elementary fact. It would not be worthwhile conducting a cooperative organization if it led to uneconomic or unbusinesslike results. He thought, however, that this definition is not adequate or complete. He goes on, therefore, to say that this definition is incomplete, since one of the specially cooperative principles which has been universally accepted, is that the association is formed on the basis of equality. If the association is not on the basis of equality, that is, it distributes power on the basis of proportionate contribution to the share capital of the institution, then it is like a joint stock business. It is not cooperative: it does not recognize the human equality of members associating for a common service.

BUSINESS EFFICIENCY

It is here that the second most important criterion of cooperative organization

emerges. If cooperation has to contribute to growth, it obviously cannot do so if it is initially indifferent to economic results. If cooperative business itself is not built on strong foundations, it will not be a source of growth to the nation's economy. Like every other form of business organization cooperation must make the most rational use of available scarce resources. On this Vaikunthbhai never compromised. He had all the sympathy for the man in difficulties but while administering the affairs of a cooperative business, such as the Bombay State Cooperative Bank, he never took a decision which was not in the interest of that business. His spirit of cooperation was accompanied also by a keen sense of business efficiency or propriety. Without bringing the business into trouble, he was able to help the poorer and the less fortunate constituents of his institution to the best possible extent. His advice was always constructive and nothing which was essentially unbusinesslike would be recommended by him. This responsibility of cooperative institutions to be efficient business units is not always so specifically stressed as it needs to be. All the moral and the good that there is in cooperation can prevail, provided the service granted by cooperatives is at least as efficient as, if not even more efficient than, that offered by alternative types of business.

Nobody knew this better than Vaikunthbhai. Therefore, he makes the point very clear right at the beginning of his article. There is another point, which though not fundamental, is specifically mentioned. Cooperation, it is agreed, is essentially an association of persons, not of capital or stock. This does not however mean that cooperatives can do business without capital. Capital has to be raised either in the form of shares or in some other form like a revolving fund. This capital contribution, however, is no measure of the member's share of either the authority or the profit of the business. Members share the authority of decision-making in equal measure, and they share in the net surplus of the business in proportion to their transactions. This insistence on equality of status is the basis of the principle of one man one vote, the democratic principle of cooperation. No primary cooperative institution may be called cooperative if the principle of one man one vote is violated by its constitution. No doubt, when we come to the federation of cooperatives which are set up for particular business transactions among constituent societies, the principle of democracy is suitably formulated to achieve maximum equality with maximum service for all primary members. It is not unusual in such cooperative federations to adopt the principle of proportionate voting up to a reasonable maximum limit.

SOCIAL RESPONSIBILITIES

Vaikunthbhai was a very critical student of the balance-sheets of cooperative institutions in this country. When cooperative organizations are promoted in a big way as agencies of official policy there is a risk of some of institutions being established by persons who are neither good cooperators nor good businessmen. Sometimes people deliberately choose to register themselves under the Cooperative Societies Act because it is less strict. This is an abuse of the Act and of the name. This type of institutions bring social as well as economic discredit to the cooperative cause. Vaikunthbhai was always very critical of these trends in the cooperative movement. He did not approve of the trend either towards higher dividends, or towards higher prices, in dealings with non-members. Limited interest on capital is an important criterion of cooperative activity on which he was very keen. He also felt that cooperative business must more

obviously recognize their social responsibilities than private enterprises.

In seeking economic and social transformation we have to choose among alternative ways. In doing this the cooperative principle of open membership has a special attraction. In this respect there is some difference in the approach of people from socialist countries, developing countries and developed countries like Great Britain, Germany and the U.S.A. which have a free enterprise economy. In the advanced free economies they often speak of voluntary membership as a necessary principle of cooperative association. Now here the whole society is based on the principle of voluntary activities, all industry and business are also voluntary. When all social organization is voluntary cooperative membership or participation is also voluntary. But where we have something like national objectives, and a national plan, within the four corners of which citizens have the maximum freedom of individual action, though membership is almost always voluntary, participation is not always voluntary. For instance, where scarce goods are distributed only through cooperatives while citizens may refuse to be members they have all the same to depend on the service through cooperatives. Such arrangements are voluntary only in the sense, and to the extent, that the whole underlying policy of social organization is accepted by the people. But it is not voluntary for each individual.

APPLICATION OF VOLUNTARISM

Some more important cases in which the pure principle of voluntarism has to be modified to suit the higher values of cooperative development were often mentioned by Vaikunthbhai. For instance, if 90 per cent of the holders of land in a given village opted freely and voluntarily in favour of cooperative farming, whether the remaining 10 per cent should or should not be compelled to join was a question to which he had no hesitation in returning a positive answer. Even these 10 per cent are in such a bad way and they are in need of so many things from the State that a rationally worked-out programme of pooling their activity, to enable the State to do its best for all, becomes a primary condition of progress for everybody. Such an obviously rational principle has normally been accepted in our irrigation laws. If you bring irrigation into new areas and if you have to ensure that productive resources made available at great social cost are most productively used, no section, least of all a small minority, can be allowed to hold out against the collective interest of the community. No State, howsoever free enterprise-minded it may be, has ever accepted the legitimacy of voluntarism in such an extreme form.

Vaikunthbhai did, therefore, stand for unadulterated voluntarism but he also stood for a bigger principle, namely, open membership. Nobody should be kept out of membership of an organization to which he was affiliated by common interest. Cooperative societies should not be exclusive organizations like a monopoly or an oligarchy. The smallest man must be able to take advantage of an association which is freely organized on the basis of equality and mutual service. This principle is of utmost importance and if cooperation has to survive as a socially desirable form, all elements of monopoly, oligarchy and exclusiveness will have to be removed from it.

Unless we are watchful, cooperative bodies can also develop undemocratic and unsocial tendencies. Those who seek to promote cooperation and claim a special status for cooperatives have a special responsibility in this matter. Vaikunthbhai realized

this. In the last article from his pen on an essentially cooperative subject, he has emphasized the need to uphold the highest cooperative principle of open membership.

URBAN VS. RURAL AREAS

There is a widening gulf between rural and urban communities in almost all countries of the world. Where the urban people are few and are getting more and more privileges and are, in a manner of speaking, sucking sustenance from the rural areas, the gulf between the two is all the while becoming greater. It constitutes a serious danger to social, economic and political stability. When development is being sought by total national effort, it must not result only in augmenting the privileges of a few urban groups. This would be a great social injustice. Vaikunthbhai deliberately chose the rural masses as his special concern, and his teachings and example did a good deal in carrying cooperative industry to the rural areas. If he had an option of locating a sugar factory in a rural area as a cooperative of cultivators or set it up as a joint stock concern of city capitalists he would without hesitation choose the former. I have reason to know that Vaikunthbhai was no opponent of modernization of industry. He only insisted that such modernization should by preference be achieved through the cooperative efforts of those whose traditional employment was affected by modern units. This latter calls for a tremendous effort of faith and performance. We have not always lived up to these requirements. But it is only through this democratic form of economic development that we can hope to reach prosperity without endangering stability and freedom. If the rural areas themselves are industrialized, if those who traditionally and for centuries have lived in small rural areas get the means of modernization and of reorganization on a progressive level, then the conflict between the concentration of wealth and power in urban areas and a progressive denudation of the rural masses, would not come about.

Because Vaikunthbhai recognized the need for enlightened and progressive urban elements deliberately identifying themselves with the fulfilment of the legitimate aspirations of the rural people he not only permitted, but exhorted, city people to join cooperatives as disinterested friends. Many of the leading cooperators of Maharashtra and Gujarat have been strongly influenced by Vaikunthbhai's teaching and example in this respect. In this sense, as in several others, Vaikunthbhai was a leader of leaders. He led the way in bringing about a reconciliation between rich and poor, urban and rural. He helped in bringing about a comprehensive approach to social reconstruction, which he would have preferred to call sarvodaya. It was in this comprehensive and progressive manner that he chose to interpret cooperation.

Community Development and Cooperation

Development is an Organic Process—The concept of development is natural to all healthy bodies. In animal bodies it means organic changes which take place from their infancy until they reach maturity. In human societies the process of gradual growth or advance through progressive changes operates through what are called social and technological improvements. The large number of scientific and mechanical inventions which we see round us are the result of a healthy instinct in men. We study nature with a view to deriving more and more benefit from it. In its origin the invention of a tractor is not different from that of a plough, nor is atomic energy in a different class than the wind-mill. A desire to progress, a readiness to study and a capacity to plan are healthy human instincts. Together they constitute the physical or technological requisites of development. The development programmes incorporated in the Five-Year Plan rightly emphasize the need to stir up among the common people generally and among the rural masses in particular the quality of progressiveness.

Indian Development Arrested by British Conquest—At all normal stages of our history, right from the period of Aryan colonization, the spirit of progress has been alive and vigorous in India. Till the advent of the British and especially till the time of the mechanical changes which took place in England towards the end of the 18th Century Indian Society would have compared favourably with any other. In the arts of peace and war India was no less progressive than any other country. It was just a coincidence of history that before the Indian people could be awake to the full implications of a dependent status as part of the British empire the exploiting country had gone so far ahead with the means of successful warfare that the belated struggles for independence were doomed to failure. These isolated acts of challenge to foreign rule culminated in the Great Rebellion of 1857, centenary of which national event we are celebrating this year. British rulers as well as the Indian people derived some lessons from this historical happening. The British were made aware of at least some elementary responsibilities of rulership and the Indians, or to be more accurate the thinking portion of Indians, realized with almost a shock the tremendous leeway in material as well as social improvement which they must make to meet the challenge of foreign rule.

A talk delivered at the Orientation Training Camp for Community Development held in New Delhi, April 1957. Ministry of Community Development and Cooperation, Government of India 1958, pp. 14.

Peaceful Administration—A benevolent school of humane and liberal British thinkers has always realized the injustice at any rate the futility of an exploitative overlordship of colony. English or foreign, white or coloured. On the whole the number of such honest Britishers has been small. Helped by efforts of resisting colonies and by world events, they have occasionally succeeded in vindicating their faith in freedom. The War of American Independence is an instance in point. But the persistence of the poison of being an exploiting race is still traceable in British relations with India and other weaker countries. It would be easy to blame the British for this trait, which at least some among them are trying to eradicate. It is more to the point to realize that soon after the passing of the responsibility of Indian governance from the East India Company to the British Crown, a constitutional system of government was set up in India. The British sovereign proclaimed that she considered herself bound to Indian subjects by the same ties as subsisted between her and the British subjects.

British Liberalism—Not that this meant much in its immediate consequences, but gradually the establishment of normal governing machinery, with an executive, judiciary and a legislative wing gave more and more practical effect to the implications of the royal proclamation. A system of modern education and a free press were features of the new regime. While popular participation in government was not welcomed and fair consideration was not shown to the people's economic interests when they clashed with foreign and especially British interests, peace and communications were firmly established. The people of India who had failed to unite in freedom, were unified in a common experience of subordination. It was the role of the National Congress to utilize the opportunities of the new era to rouse among the people a firm determination to be free. Political dependence had many disadvantages. But the most vital defect consisted in this that a dependent status deprived the people of an opportunity of participating in ordering the social system according to ideas of progressive living and of actively fraternizing for mutual betterment. That ideas of free existence were not only allowed to exist, but were actively though tardily promoted must always be written up to the credit of British rulers. This reforming influence as also the effects of a limited industrialization which was permitted to exist was confined to the upper few. The rank and file of the people, especially the rural people, remained outside the pale either of liberal culture or of industrial progress.

Liberalism Perpetuated Inequality—While no active support was offered by the British rulers to the indigenous systems of religion and social customs, their very unconcern for these tended to have a reactionary and disintegrating effect. It is true that the sanction of governmental authority could not be invoked against inhuman customs like *sati*, (self-immolation of wives at husband's death) but prescriptive rights and caste customs were in many cases enforced under common law. The lot of the untouchables, later called Harijans by Mahatma Gandhi, remained for the most part unrelieved. Women's position continued to be that of dependents. Customary exactions which often had only a superstitious sanction could be enforced in law. While new learning and new industrial and governmental life were unhelpful to the perpetuation of caste barriers, there was no support for an active movement for social equalisation. A foreign power by the law of its own existence cannot afford to think or act in equalitarian terms, because its own rule is based on a thesis of a superior race retaining to itself the major benefits of an exploitative and oligarchic state. Such a government is perforce led

on to seek subsidiary allies among local people. The British were even more exclusive than the highest among the Hindu castes. Their active influence was, therefore, not used on the side of removal of caste. In fact, when challenged on the political front they actually exploited the religious and caste divisions for sowing seeds of discord and for prolonging foreign domination. They only added a new racial and political gradation to a gradation of castes and classes which already prevailed in India.

Three-fold National Struggle—Under the leadership of Mahatma Gandhi the Indian people carried on a three-fold struggle— political, social and economic. As subjection of the life of the people to foreign domination was the evil which called for most urgent action prior efforts had to be concentrated on attainment of national freedom. Ten years ago the foreigners withdrew from India leaving us free to order our national and international life as we like. The worst sufferers of foreign rule were the common people, who had to bear the combined weight of political and social tyranny. Having come into their own at the establishment of the Indian republic the common people naturally desire that the regime of privilege, political as well as social and economic, should end. In other words free existence which we commonly worked for should be commonly shared—shared in regard to benefits as well as in regard to burdens. The Constitution of India, therefore, embodies the principles of a free, equalitarian and progressive state for which the patriots worked and to which the people aspire.

Relevance of Community Development to Principles of the Constitution—The Community Development Programme is a method by which the people at large are given an opportunity to work out their own progress in keeping with the principles of the Constitution. The republic itself is a community of free men. Every citizen has the same status in it. He has the same rights and responsibilities as everybody else. By his free association with his fellowmen he is entitled to order this individual and collective life in the best manner he considers desirable. The governmental organizations themselves at Union and State levels, are such community organizations as the people through their representatives in the Constituent Assembly have created for themselves. Further working of these bodies as well as of others which the people in appropriate areas and groups create for themselves will have to conform to the principles embodied in the Constitution. Gradual advance through progressive change, in other words development, is the purpose of our life. This we have pledged ourselves to realize in a manner which will ensure a rising standard of life for the common people, will offer gainful employment to all, and will avoid concentration of economic power.

Federated and State Assisted Popular Organizations— The purpose of our free national existence so stated are worthy of the unflinching support of all free and cultured people. The National and the State Governments as important community institutions have the responsibility of enabling people so to organize their daily life that these purposes would be actually realized by them. Guidance and suitable assistance, which are really in the nature of sharing common resources through a common agency, must be forthcoming from the State. But the utilization of these aids for realizing development has to be an effort of each community for itself. Community implies mutual participation to the greatest possible extent. That is why, while financial organizational and technical assistance is being offered to the people in the task of development the main emphasis is on the efforts of the people themselves. Individually the people are expected to take advantage of the support and facilities for self-improvement offered

to them. But to realize the full measure of development that modern knowledge and means make possible people have to act together. Such community life based on mutual benefit has to be appropriately organized.

Mutual Service —Not Benevolent State Action — Basis of Community Development Organization— In the field of government mutual organization takes the form of self-governing bodies at different stages from the village upwards to the nation as a whole. To bring as large a portion of life under mutual influence as possible, a large measure of decentralization of governmental functions is called for. That is why local self-governing institutions are considered basic and vital in the functioning of a democracy. The Community Development programmes which have been in operation during the last five years have proved once again that any improvement in the life of the people which they have not participated in planning and carrying out has no element of permanence and growth in it. This is true of even apparently physical features like tanks and wells. It is even more true of items of progress where behaviour pattern, as in the case of hygienic living, or social relationships, as in the case of **shramdan** (voluntary contribution in kind, cash and labour) or participation in social life on an equal footing, is sought to be influenced as a part of developmental programme. Past experience, as well as current experience, proves that unless the people through their own institutions create a life of progressiveness for themselves there will be no real or lasting progress. Only some physical relics of attempts at improvement will remain unless community development is really and truly a programme of mutual participation. This is the watchword of stable progress among free men: beyond what one is capable of doing for oneself all action arising out of association with fellowmen must be of a mutual or community character. Despotism, even of a benevolent character, has no claim either on our moral allegiance, or on our practical collaboration.

It is to be hoped that this moral of our experience with community development schemes has been impressed on the minds of all connected with the programmes. The need to draw unreservedly and persistently on the pattern of mutuality is at least as great in the economic as in the social spheres. To a large extent the inherited tradition of British as well as of earlier days in the economic sphere has been one of tolerated inequality. The pre-British days also happened to be in India of pre-machine days. Great inequalities did indeed prevail, but the economic system itself, which was static, did not promote greater inequality. As the pattern of industrial evolution unfolded itself under British domination a process of economic degradation of the mass of the people gathered weight. Those who were engaged in the higher tasks of government and allied activities were the first to lose their jobs, and gradually their place in society. The artisans and their helpers were the next. By and large the establishment of peace and better communications, and the operation of the British law courts, benefited only the money-lending and trading classes. Not that these classes had no difficulties of their own, especially in regard to the relationship with the British. But the general economic pattern of British rule in India was that of a high level foreign exploitation carried on with the collaboration of a large number of indigenous economic collaborators and administrative agents, who also tended to share in the exploitation.

British economic policy and legal system intensified impoverishment and inequality

While means of economic development available to the people of the country

were limited, their distribution as among urban and rural areas, better-to-do and poor, propertied and non-propertied, was very unequal. The economic situation which confronted the Indian republic at its formation was, therefore, one of neglected and stunted growth and of great disparities. To be true to the tenets of the

Urban-rural inequality—Public sector to promote free enterprise through co-operatives

Constitution, and to the essential requirements of survival, a developmental programme which would mitigate these inequalities, and would prevent the rise of fresh inequalities had to be drawn up. This is the basic principle of India's Five-Year Plans. The reason why the so-called private sector is taken for granted and special emphasis is placed on the public and the co-operative sectors is clear. The private sector has been with us long, and it will be with us so long as democracy lives. In fact all the attempt of planning is so to utilize the public sector as to provide facilities for the largest number of people to participate in a regime of private enterprise. Unless private enterprise is actively promoted by the community, i.e. by the State, as a way of social and occupational life for the mass of the people, private or so-called free and unfettered enterprise only leads to economic concentration. Concentration entails conditions of inequality and dependence which are inconsistent with democratic culture. It is here that the main justification of the public sector is to be found. It is in this context also that the need actively to promote cooperative organization among the rural people assumes fundamental importance.

Land Reform—Let us consider first the measures for land reform which are central to any programme of rural development. Agriculture is the main activity of the rural people. If conditions of equality and freedom are to be created in this field to any reasonable extent land reform is the first necessary step. Through conversion of public opinion and through the processes of law made by the freely elected representatives of the people steps are being taken to ensure some basic conditions of equality and freedom for cultivators. While the form of land reform legislation and the stage reached in its implementation vary from State to State, certain broad principles have been laid down by the Planning Commission and the National Development Council. Non-cultivating ownership is to be abolished. Those who cultivate the land have to be given rights of secure holding. Apart from certain exceptions, referring to estates organized on progressive lines of productive cultivation, a maximum limit to an individual's holding is to be prescribed with reference to an estimated area which the holder can personally cultivate. Surplus land obtained from this class and uncultivated arable land wherever available is to be redistributed among landless agricultural workers and small holders. The result of this process of reform is bound to be the creation of a pattern of landholding where the small scale "owner" cultivator is the typical farming unit. This policy of creating peasant-proprietors has been deliberately adopted and is being steadily pursued.

If development is to be realized in a society of small farmers, in a manner which will not reproduce conditions of economic concentration and exploitation, which prevail under a regime of landlordism and private moneylending and trade, it can be achieved only on the basis of mutual service. The national community, acting through appropriate governmental channels, may help forward such mutual service associations. But the state cannot take the place of these associations themselves, for the same reason

for which State created services are no substitute for community development. The elements of free choice, self-improvement and joint and several responsibility are the foundations of democratic life. Development, social, civic or economic, would neither be real nor lasting unless it is organized on these lines. Community development and cooperative organization are two sides of the social pattern which we have chosen for ourselves. This has been referred to as Cooperative Commonwealth. This description is not simply the name of an ideal. It describes the pattern of our policy and programme. Without cooperative organization of the life of villages through cooperatives and village bodies like panchayats, there is no prospect of community development and, without community development, of democracy. This is the truth which is to be realized and which is to be impressed upon the minds of villagers, village workers and development officials.

Once the importance of cooperative organization is firmly grasped the practical steps to be taken for its promotion naturally follow. The most common type of cooperative in India used to be the rural credit society. Its size was small and its members often constituted themselves into an exclusive group. New members, especially the smaller farmers, were not easily admitted. Management was through honorary or part-time staff and as a rule it was unsatisfactory. Even for members not all needs were satisfied. In a fairly large number of cases management was not only inefficient, but it was positively bad. In any case attending to credit, without having a programme of positive improvement in production, seemed to be both inadequate and risky. Even when some sale and purchase functions were associated with credit, full benefit could not accrue as there was no assurance that credit would be productively used. Moreover, cooperative marketing was too underdeveloped to hold out opportunities of profitable business to members. Lack of production programme, exclusive and small membership, indifferent management, absence of adequate marketing facilities and a consequent lack of developmental resources characterized cooperatives before the advent of the National Plans. Cooperatives came in for a lot of justifiable criticism and the people had as great a lack of faith in them, as in the old type of rural uplift movement. In the era of democratic planning we are putting a new life into schemes of community development, and we are doing the same with our schemes of cooperative development.

Basis of Cooperative Planning—While small details of organization may vary from place to place the main features of our cooperative plan are now clear. At the base there is a multipurpose primary society. All villagers are eligible to join as members. In fact they are expected to join. The community project programme would make it necessary and worthwhile for all villagers to become members of a cooperative society. All the services credit, seed, fertilizers, sale, etc. would be organized through cooperatives. It would be a part of extension effort to popularize an item of improvement and also the cooperative method of pursuing it. Given the need and the willingness to become a member, the cooperative society would be expected to admit all villagers to membership. Nobody is to be compelled to seek membership, though the advantages of becoming members are to be brought home to all. But cooperative societies which obtain benefits of registration and of participation in the national schemes

of development would be expected not to refuse admission to anybody except on such grounds of personal unsuitability as could be appreciated by all.

That cooperative societies exist mainly, if not only, for making loans and that loans are made on the security of land are notions which in the past have restricted the usefulness of cooperative societies. Now cooperatives are to be used not only for issuing loans, but also for promoting thrift, for obtaining requisites of better farming, for finding a more profitable market for their produce, and for several other items of daily business affecting village artisans as well as cultivators. While the eligibility of members to receive credit may be judged by their creditworthiness, members participation in one or many of the multiple activities of a cooperative need not be dependent on their creditworthiness. The idea of creditworthiness itself has to be dissociated from the ownership of land and resources. More and more it has to concentrate on productive use of resources. The membership of all villagers becomes feasible and necessary under the revised plan of cooperative development. Both the villagers on the one hand, and the cooperative workers on the other, have to be educated in these features of the new situation.

In their reorganized form cooperatives have to be made sufficiently strong to be able to carry out their functions and to meet the needs of their members. Here the first issue is about size. As a rule, though not in all cases, a village has a certain civic and economic homogeneity which would be an asset to the working of any organization, and especially to a cooperative organization. But let it not be forgotten that even within a village we do not always find either social or economic identity of interests. In fact a part of the community development programme consists in actively promoting a group feeling even within the village limits. While this good work is going on we have to realize that for the successful working of the multipurpose cooperative society other things are at least as necessary as geographical nearness of members to one another. For instance, even if the affairs of a cooperative are confined to credit, i.e. acquisition of funds by way of shares and loans, their distribution among members according to principles of sound lending, and providing for recovery management of the society has to be carried out with efficiency and impartiality. When the function of credit is integrated with that of general development the professional responsibilities of management become all the more complex and difficult. Add to this business of credit the further programmes of sale and purchase without which neither credit nor any other developmental activity is likely to succeed. The kind of simple and occasional activity involved in distributing loans obtained from Government or a central bank among a few members who know one another could perhaps be discharged without much loss of efficiency by part-time or honorary staff. But the extent and nature of service which we now expect from cooperative personnel need the services of qualified permanent staff. Only a society whose annual business enables it to earn enough income to pay for such services can hope to benefit by them. For some time and for some societies subsidized management can and needs to be thought of. But if cooperatives are to play their legitimate part in the normal functioning of developmental institutions, it will not do to build them on the permanent foundation of subsidized management, even if that course was economically feasible.

A satisfactory pattern of management, such as that of qualified professional staff

acting under the guidance and supervision of an elected board, would be essential for the success of a cooperative even if it obtained its resources from an outside source. But to enable a cooperative society to build a maximum of resource from its own members good management is absolutely essential. As a result of developmental programmes of various sorts operating in rural areas the expenditure of funds which add to cash earnings of the rural population is on the increase. The net incomes in rural areas are also improving. For their own sake and for the sake of ordered planning of the nation's economy it is desirable that the savings as well as the cash balances of the rural people are brought within the organized system of finance. In one way or another the cooperative primary, which will in most cases be the nearest financing institution for most people in villages, will have to play a significant part as the basic unit of the national financial structure. If the villager is to be persuaded to commit his cash and his savings to the care of the cooperative its management and its capital structure will have to be such as would inspire confidence. As development proceeds the resources of members, and therefore of the cooperatives themselves, will grow and will make them substantially independent of outside sources. In fact as the experience of several areas in which successful agriculture is being practised for some time shows the rural areas may in a developed stage actually spare a financial surplus for investment and use in other sectors of the economy. To enable the villagers and their institutions to build up such a progressive and increasingly productive economic effort initial sponsoring and partnership by the national community is necessary. That is why it is now decided that wherever a society large enough at least eventually to run on its resources cannot be formed in a single village, a society should be started for a group of villages and the State should, if necessary, provide part of its initial capital. As the operations of such societies increase the State's capital should gradually be retired so as to make the societies completely self-reliant.

Even while State participation in capital of primary societies lasts it is desirable that the participating body should be the financing cooperative which will obtain the necessary funds for the purpose from an earmarked fund lodged by Government with the State Cooperative Bank. The retired amounts of share capital will lapse to this fund to be reinvested for similar purposes. Thus like other items of community development, cooperative development also will conform to the principle of using State resources in such a manner as to maximise the people's own effort and to render unnecessary permanent subsidization of normal developmental activity. As the primary cooperatives would be working as participants in a national plan

**State Assistance
for Promoting
Self-help**

of development not only would they be entitled to share in national resources through appropriate cooperative agencies, but they will also have the assistance of advice from people of knowledge and experience. The financing agency and, where suitable, the Government will appoint on the boards of management of cooperatives a certain number of representatives. The presence of these representatives will make for regular utilization of the best talent in the working of cooperatives. The members and staff of cooperatives will benefit from the association of such knowledgeable persons. The confidence of the public at large will be built up and the whole operation of cooperatives will be strengthened in a manner worthy of the basic role allotted to them in our pattern of society, the

cooperative commonwealth. In due course the extent of outside nominations may be reduced so as to be confined to the minimum needed for efficient working.

Marketing Societies—The rural multipurpose primary would be the most important cooperative institution on the creation of which the attention of all developmental workers should be concentrated as the first step. Almost as a part of this initial effort, in any case as a quick second step, marketing societies have to be organized in suitable **mandi** or trading centres. These societies will for the most part be formed by the multipurpose societies that any supplies of producer goods like fertilizers and implements, or of consumer goods like cloth and sugar which their members need, should be obtained from sources which can be trusted to be fair as well as reliable. A supply cooperative formed by the primary societies themselves gives the best guarantee of such service. Needless to say, such societies will also have to possess enough resource of capital and personnel to ensure efficient working. All the considerations regarding size, capital contribution, expert nomination etc. which apply to primaries are even more significant in regard to marketing societies. The marketing societies have to discharge the very responsible and important function of selling the produce which the member primaries offer for sale. A very severe competition is to be expected in this field from vested interests accustomed to act in a ruthless manner when threatened by institutionalized rivals. In itself the selling function is a very difficult one, whether one does it on a commission basis or one's own responsibility. Executive skill, salesmanship, feel of the market, insight into complicated economic forces, and good public relations are needed in high measure. To secure all these marketing cooperatives have to be established on sound lines and they have to obtain resources of men and money equal to the demands of their work. The system of cooperative development and of cooperative finance depends vitally on institutional channels of marketing. Any effort calculated to establish and improve marketing societies would therefore rank high in a programme of development.

Processing Societies—Marketing of agricultural produce in several cases naturally entails some processing. Grain has to be milled, seed has to be pressed, cotton has to be ginned, cane has to be turned into sugar and so on. Even where marketing is honestly done the fact that processing is outside the influence of the producer costs him a large part of the price that ultimately is paid by the consumer. If the grower is to realize as large a portion of the consumer price as he possibly can he must participate in the attendant efforts of processing and marketing. Processing, however, is a factory job. Financially, organizationally and economically it entails a scale and type of business activity which is beyond the normal limits of a small farmer's capacity. This difficulty only underlines the need to have a sufficiently long period during which the functioning of cooperative processing industries will be closely guided by cooperative and public agencies specially charged with this responsibility. Here again, adequate resources of money and personnel needed to supplement the contribution of members would initially have to be supplied by public agencies. But properly worked this actively will strengthen the other cooperative efforts in a very significant manner. Moreover, it will contribute to the efficiency of institutional equipment needed for democratic planning. As we proceed from plan to plan, for production, distribution and investment efficient as well as socially responsible agencies of public policy are more and more in demand. If this need is not to lead to the creation of excessive centralization and bureaucratic

power, an integrated cooperative structure covering all aspects of economic life has to be created as quickly and as surely as possible.

Decentralized Industry—The need for such cooperatives at all levels is not confined to the agricultural sector. The whole pattern of industry and trade has to be so reconstructed that the individual citizen finds it possible to carry on his economic activity on the basis of mutual aid, and is not compelled for his employment to be dependent on a power which can operate without his own participation in the policy and conduct of the enterprise in which he is engaged. Individual operation of economic activity with such help as may be institutionally available, operation through cooperatives, municipal or State industries in suitable fields offer such free and fair conditions of employment. Small private establishments where personal relationships on a human and mutually understanding basis can be established among workers and management have also a significant part to play in building a pattern of democratic development. To ensure the widest possible distribution—the possession and productive use of wealth—a decentralized and cooperatively organized economy has to be promoted in all walks of life. It is the declared policy of our country not only to encourage cooperative efforts, but to strive honestly and persistently to establish a cooperative commonwealth. Both as an aid to development, and as a system of mutual relationships among citizens of a republic, the early establishment of a cooperative commonwealth should occupy a high place in the esteem of all connected with the making, financing and implementing of the National Plan.

State and National Bodies—While the institutions at the village base and in the districts are being built up, supporting organizations at the State and national levels are also being established. Not only has State Cooperative Banks and State Land Mortgage Banks, which are being suitably reorganized to enable them to play their part in the scheme of planned development but other cooperative federations like marketing, housing and industries are also coming into existence. The State Governments are playing an active part in promoting these developments which strengthen the democratic roots of the welfare policy followed by them. The Government of India, the Reserve Bank of India and the State Bank of India are all devising suitable means to assist the countrywide efforts at reconstructing and developing the country's economy on a cooperative footing. Any effort made to promote cooperative activity can now count on adequate recognition and support from all public agencies. In the sphere of constructive national work cooperative activity now occupies a prominent place.

Cooperative Education—To ensure that efforts at cooperative reorganization and development are intelligently appreciated and are wisely guided education in the principles and practice of cooperation has to be imparted on a wide scale. In fact as for participation in the functioning of a political democracy primary education is an essential pre-requisite. for the efficient and successful working of an economic democracy universal cooperative education is equally necessary. The Government of India, the Reserve Bank of India, State Governments, the All India Cooperative Union, and the State Cooperative Unions are collaborating in establishing a nationwide system of cooperative training needed for the working of all types of cooperative organization. Cooperative colleges, schools and training courses have been set up for this purpose. Already they are doing much useful work, and their number and efficiency are bound to grow in the near future. But for the creation of a general understanding and appreciation of the

cooperative form of life and business education at the primary and popular levels has to be informed and inspired by cooperative knowledge. Both by having special lessons and occasions for cooperative talks, as also by making cooperation, like freedom and truth, a part of all educational precept and practice, we would be insuring a life of freedom and progress for all our peoples.

Cooperative Planning in Developing Countries

With Special Reference to Indian Experience

ALL healthy enterprises usually have a progressive outlook and policy. But when units are small, and uncertainties in the economic sphere are large, little of quantitative planning is feasible. Recently, however, there has been considerable improvement in both these respects. The management of enterprises is increasingly being placed in the hands of persons having a good deal of professional competence. In almost all countries governments have assumed increasing responsibility in regard to matters such as full employment, adequate investment, price parities and the wage structure. A number of international and inter-regional agreements covering wide fields of economic activity have also come into being.

LONG-TERM VIEW

In this more rationalized and integrated situation cooperative enterprises also find it possible, along with their competitors from the private sector, to take a long-term view of their business, and to plan progressive steps by which they may expand the scope of their usefulness to their members. To have well-established and well-equipped institutions through which each enterprise, cooperative or other, can ensure access to all means of successful business is by itself an incentive to cooperative planners. In such a situation no special appreciation or, support to, cooperative business from public agencies is necessary. Of course, in so far as a country moves towards assuming more and more collective responsibility for the guidance and operation of its economy, finding a specific place for cooperatives in its structure of public services becomes a relevant issue.

COOPERATIVE PLANNING IN DEVELOPED COUNTRIES

The record of socialist and semi-socialist governments in developed countries is on the whole one of appreciation of the role of cooperative organizations. Hence it can be stated for almost all developed countries, socialist and others, that the planning by cooperative organizations of their business does not raise any problem which in its technical aspects differs from the problems of planning other types of business. No doubt the major effort to spread the cooperative faith, of mutual service as an alter-

Source: *Indian Cooperative Review*, Vol. IV, No. 2, January 1967, p. 193.

native to profit-earning service, among the largest number of people, and to train an adequate number of persons who would be able to carry out competently the functions of a cooperative body remains a special concern of cooperatives. However, given an adequacy, if not an actual abundance, of resources these tasks can be more confidently undertaken by cooperators.

SITUATION IN DEVELOPING COUNTRIES

The situation in underdeveloped or developing countries is different in many vital respects. Not all developing countries are at the same stage of their advance towards development, which may in this context be defined as a state of progress in which full employment at a level of earnings above the subsistence standard is normal. In developing countries, on the contrary, a technologically static or backward economy is normal; savings and capital formation are meagre; traditional forms of agriculture are the predominant occupation of the people, unemployment and under-employment are chronic; both birth and death rates continue to be high; social, educational and administrative services are neither widespread nor efficient. These shortcomings, and others similar to them, are common in all developing countries.

Equally common, however, is a new awareness and determination among all of them to achieve in full the potentialities of their growth. In fact more characteristic of the social and economic policies of developing countries today is a feeling of impatience at the slow rate of their progress, than an inertia or unwillingness to move forward which in the past was traditional in them. This suddenness of the impact of modern science and of the emergence of popular unrest produces somewhat divergent results. While the feeling of national or tribal independence is intensified into a passion, regard for individual dignity and freedom is not necessarily cultivated or honoured. Whereas external independence is jealously guarded the internal institutional life is not necessarily built on the firm foundations of freedom of individual enterprise. To attain for the nation the means of power and prosperity as quickly as possible is the main preoccupation of those who have responsibilities of national leadership in these countries.

Both the extremes that of giving a free, in fact sometimes a protected, field to capitalistic enterprises, or that of taking up all economic activity as the responsibility of government, are seen. But by comparison such extreme cases, in which cooperative activity has little hope to thrive, are few. By and large, a mixed form of industry in which there is considerable scope for voluntary individual effort is adopted. The State reserves to itself large powers of doing all it can or must, to secure national progress. Cooperatives in such countries are chalking out fairly ambitious schemes of consumer or marketing or housing services for their members. Though it must be recorded that in the absence of a definite policy of support to cooperatives, the general paucity of resources acts as an obstacle in the way of healthy cooperative progress. Private capitalists and governmental agencies get the cream of such opportunities of progress as are available.

PATTERN IN THE FORMER COLONIAL COUNTRIES

In many of the former colonial countries some form of cooperative organization had been introduced in such spheres as agriculture, industry, credit, trade and housing. After attainment of independence these institutions supplied readymade means of pro-

moting economic progress, which the new governments were willing, and sometimes eager to encourage. After the World War II, in one way or another, the policy of planning for welfare and progress gradually became widespread in almost all countries. Both for internal action and for international assistance specific programmes of development were a necessary instrument. Gradually and imperceptibly all institutions, private, public and cooperative got used to the idea of planning. Where the government as well as the private and cooperative institutions had a common interest in some sphere of development the planning by institutions and government became interdependent.

In this situation cooperatives lost some of their initiative and freedom, but on the other hand they got valuable protection and support. At the stage of very initial development at which many of the cooperative movements were, freedom meant little more than isolation, and initiative meant a paucity of essential resources. They were, therefore, willing, at least for the time being, to make a common cause with their governments so that they may have as good an opportunity to strengthen their position as possible.

IN THE CONTEXT OF NATIONAL PLANNING

By the necessities of consolidation and progress which newly independent countries had to face, some form of national planning became almost inevitable. Wherever a nucleus of a cooperative movement existed, it received added impetus, especially in countries which had governments favouring democratic and equalitarian policies. It was thus possible for a real cooperative plan to emerge. It may be rightly said that genuine cooperative planning is planning of cooperatives, for cooperatives and by cooperatives. In countries where governments associate actively with the cooperative movement in the making and implementation of national plans some of the planning for cooperatives is merged in national planning. But as ultimately it is by the action of the cooperators themselves that fruitful collaboration has to emerge, cooperative planning, to be effective, has to be essentially planning of cooperatives by cooperatives.

COOPERATIVE PLANNING IN INDIA AFTER INDEPENDENCE

India, which has a cooperative history of more than sixty years and which has adopted a policy of democratic planning and mixed economy since it attained independence from British rule, is an interesting case. In essence the trends revealed by cooperative planning in India have relevance to similar planning in almost all developing countries.

FIRST PLAN

The First Five-Year Plan of India was made in 1951. It has this to say for Cooperation :

“We have expressed our preference for the cooperative organization of the economic activities of the people, especially of those activities e.g., agriculture, marketing, cottage and processing industries and internal trade which form the most important part of the developmental schemes included in the plan. As an instrument of democratic planning combining initiative, mutual benefit and social purpose, cooperation must be an essential feature of the programme for the implementation of the Five-Year Plan.”

Lest such an apparently powerful sponsoring may lead either to efficiency or to dependence of cooperative institutions, the Plan went on to observe :

“It is, however, not our intention that cooperatives should be bolstered up indefinitely, irrespective of the quality or cost of the service they offer. At the same time it is only reasonable to expect that in their formative years they should be ungrudgingly helped by the State to utilize the opportunities offered to them and enabled to consolidate their strength.”

SECOND PLAN

In successive Five-Year Plans this policy has been fully maintained. The Second Five-Year Plan, commencing in 1956, authorized the strengthening of the capital base of the operations of cooperative institutions, if necessary, by public participation on the basis of gradual retirement in the equity or share capital of these bodies. This bold policy made it possible for cooperatives to plan their expansion in a big way. Financial, marketing and processing institutions, especially those which catered to the requirements of agriculture, found it possible to make more specific plans of progress. This was recognized in the Second National Plan which incorporated the following targets of cooperative progress :

Finance

Number of new Larger-sized Societies	10,400
Amount of short-term credit (Rs. million)	1,500
Amount of medium-and long-term credit (Rs. million)	175

Marketing and Processing

Primary Marketing Societies	1,800
Cooperative Sugar Factories	35
Cooperative Cotton Gins	48

Warehousing and Storage

Central and State Warehouses	350
Godowns for Marketing Societies	1,500
Godowns for Large Credit Societies	4,000

FOURTH PLAN

In later Five-Year Plans, higher targets have been adopted for an increasing number of items. They indicate the readiness of the Planning Commission and of the Central and the State Governments to help cooperative organizations to develop their activities in this manner. It is ultimately for the cooperative organizations themselves to frame their own programmes of growth with such assistance as is available from other sources. The Planning Commission has to keep open the possibility of turning to the private or to the governmental sectors if the cooperative institutions fail to reach either the quantitative target or the qualitative performance. For instance, the Memorandum on the Fourth Five-Year Plan which has commenced from the current year, 1966, observes as follows :

“As the coverage of the movement has grown, three problems have assumed con-

siderable importance, namely efficient management of business, the quality of cooperative leadership and administrative arrangements for supervision of cooperative activities at each level. The key to the success of cooperation in the Fourth Plan, therefore, lies in ensuring sound business practices, competent managerial personnel and systematic training of members and office-bearers of cooperative institutions."

MAHARASHTRA'S EXAMPLE

It is thus clear that even when public authorities are prepared to assist cooperatives to grow, their actual growth depends on their own capacity for planning, organization and management. In these respects the following illustration of a fairly progressive cooperative movement in one of the States of India, namely, Bombay (Maharashtra) would prove interesting. The leadership in planning is assumed by the State level cooperative bank, which itself is a federation of the 26 district level cooperative banks. As all cooperative enterprises have to seek some form of financial service from an appropriate cooperative bank, the latter encourages and helps all its clients to formulate programmes of their needs in the prospect of their current year activities, as also their plans of progress for the whole of the Plan period. In doing so, the institutions are encouraged to take stock of their past performance both in quantitative and qualitative terms. This type of planning and programming lends realism to the targets of progress and it helps in making the most efficient use of the resources available to the cooperative movement as a whole.

At the State level, State Cooperative Bank organizes an Annual Plan Conference which meets well in advance of the Business Year which starts from the commencement of April. The current year's conference was held in February 1966. Beside all the district financing bodies, this conference was attended by the State Marketing Society, the State Land Mortgage Bank, representatives of Urban and Industrial Banks, the representatives of Government Department of Cooperation and other important constituents of the cooperative movement. Fresh plans, for the year 1966-67, were made on the basis of actual performance during the previous year 1965-66 and in the light of opportunities for expansion expected to arise in the new year. In a predominantly agricultural and tropical country like India seasonal factors are very crucial and along with other factors which cooperatives in all countries have to take into account, these special theory and law, has to be relied upon for realistic and at the same time progressive planning.

Some of the targets which this year's conference adopted in pursuit of the policy mentioned above are interesting :

Particulars	1965-66	1966-67
Primary Agricultural Societies	21,500	21,500
Membership of Agricultural Society	2,775,000	3,030,000
Per cent of Agricultural Population	57	65
Share Capital and Owned Funds of Cooperative Banks (Rs.)	100,000,000	135,000,000
Deposit Resources of Banks (Rs.)	400,000,000	600,000,000
Lendings by Banks (Rs.)	950,000,000	1,270,000,000

HOLDING THE PRICE LINE

Similar targets are discussed and approved for other items and other institutions, such as processing factories and other cooperative industries. Recently, on account of acute distress among the poorer classes of consumers caused by an inflationary rise in prices a big expansion of consumer stores is planned in all States, and the Government which is committed to a policy of holding the price line and controlling the distribution of essential commodities in short supply is helping this expansion of cooperative stores in every possible way.

TRAINING PROGRAMMES

There is always a risk that efficiency is not adequately maintained in such rapid expansion induced by external influences. Programmes of training for members and for employees are, therefore, simultaneously undertaken. The capacity of cooperators to benefit from these facilities is not uniform from district to district. In a limited way regional variation within a big and federal country like India is comparable with problems of international variations of cooperative movements. Training, organization, managerial techniques even when they are within the knowledge of cooperators, take time to grow and be a part of the living experience of cooperative institutions. But as experience grows in each area and exchange of experience among representatives of different regions becomes normal, better planning of further progress is rendered possible.

I hope that what I have said with special reference to cooperative planning in India would have some bearing on the situation in other developing countries, and that cooperators from developed countries will also find something to interest them in the peculiar conditions of cooperative planning in developing countries.

Cooperatives and the Second Five-Year Plan

THE firm declaration that deficit financing has gone far enough and that, if the targets of the Second Five-Year Plan are to be fulfilled, the community will have to make a much more determined effort to raise resources, by way of taxation, loans and free contributions, than were contemplated in the Plan, which the new Finance Minister has been making comes as a tonic in a generally inert and passive situation. On the other hand, much of the wobbling on fundamental issues like land reforms and ceiling on incomes which has characterized recent pronouncements of equally eminent persons, suggests that the top leaders are not prepared to create an equalitarian social structure in which alone supreme sacrifices and efforts on the part of the mass of the people can be called for with any hope of carrying conviction. In the absence of a well-reasoned and planned programme of action in support of an equalitarian goal the apparent controversy about adjectives, e.g. "socialist" and "cooperative", appears to be no more than a tactical move.

That this interpretation is not altogether imaginary is suggested by the play which is being made of a number of catch phrases. In the days of Mahatma Gandhi a Co-operative Commonwealth was declared to be the goal of Indian social and economic policy. Honestly interpreted this goal should comprise all that a democratic and equalitarian society aspires for. At its minimum a commonwealth should see the end of all privilege, be it of caste, or of class or of wealth. To ensure this result ownership has to be widely distributed and the functions of ownership have to include a due subordination of individual to social gains. A commonwealth would by definition be an equalitarian society where no exclusive privileges would exist. The description of this State as a co-operative commonwealth further provides that economic organization will be on a mutual service basis, and not on a profiteering foundation as under capitalism. Thus self-government and self-employment will fall into a common pattern of group organization and the requirements of equality and freedom will be realized without sacrificing prosperity or progress. To the extent to which individual action is on a non-exploitative level it is permitted to continue. Where associated economic action is needed on account of improved technology, the same is supplied by cooperative organization. In the field

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of activities which are of general, social or national interest, the democratic State itself is the cooperative unit, and hence State-operation is genuinely cooperative.

Cooperative Commonwealth, if the terms are properly interpreted, should thus provide for all the essential requirements of freedom, equality and progress. Lacking a full understanding of these implications, some years ago, a few influential people within the Congress thought that Cooperative Commonwealth was not a sufficiently radical or progressive programme for them. The Congress ideal was, therefore, re-described as a socialistic pattern of society. Actually this was a much less ambitious goal than either socialism or a Cooperative Commonwealth. Instead of promising the best of both the worlds it offered only a colourless existence. Probably this was soon recognized as a weakness of the slogan, the real implications of which had not been thought of earlier, and within a year the description of the goal was revised as a fully socialist State. As contacts with reputed socialist States like Soviet Russia and China grew the totalitarian and expropriatory possibilities of a type of socialism came to be more fully comprehended. A retreat from socialism, therefore, seems to have commenced and in the process the good old Cooperative Commonwealth has been revived. Lest it may appear once again to be too modest a goal, or lest the retreat from socialism be too marked, the latest description of the goal of the socio-economic policy of the Congress is "a Socialist Cooperative Commonwealth".

Taking even this latest Congress attempt at defining its special goal of planning as the creation of socialist Cooperative Commonwealth, the emphasis on the word cooperative should not be ignored. An economic commonwealth has to be in principle socialist, there is no escape from it, as no privilege is to be tolerated and effective equality of status is to be ensured. But as a commonwealth or a socialist State is feasible even under totalitarian conditions, the democratic alternative of a "Cooperative" Commonwealth favoured by India, has to be emphasized. In the modern context of technological progress equality can be assured only under some form of socialism. But if freedom is not to be sacrificed, socialism has to be cooperative and not totalitarian or collectivist. Democratic socialism can only be realized in a Cooperative Commonwealth. A step away from cooperation in the direction of State activity is a detraction from democracy. Unless, therefore, the nature of activity concerned is such that the purposes of mutual service are better realized on the State or the national level than on a cooperative level, the cooperative form ought not to be departed from.

With regard to the cooperative form itself several variants are, of course, possible. In fact we ought deliberately to show more elasticity of approach in this respect than we have done in the past. In our country, the element of subsidy has been almost congenitally associated with everything cooperative. This, as well as the desire to give to the poorer, less educated and less experienced section of the community a somewhat simpler form of association than was normally available under the Companies Act, led to the decision to have a special Cooperative Societies Act. As is well known not all countries have a special statute for cooperative as distinguished from normal business association. Along with special advantages came special responsibilities. These and other special features also justified the creation of a separate cooperative department in each State having routine and extraordinary functions and powers in relation to the cooperatives. While these purposes have on the whole been well served by the Cooperative Act and the Cooperative Departments the new context in which cooperatives are

being thought of should influence the future course of transformation of both these. It is increasingly true that cooperative organizations will be called upon to play a vital role in the carrying out of social and economic policy. But it is not necessarily true, in any case it will be less and less true every day, that cooperatives are organizations of weak, ignorant and inexperienced people. They will be normal organizations of normal people, sometimes for purposes which affect only their members, but more and more frequently for purposes which have an important public significance as well.

It is this aspect of the social purpose underlying cooperative organization which most writers on cooperation and leaders of cooperative activity from industrially developed countries are finding it difficult to appreciate. According to them cooperatives ought not to be instruments of State policy. They do not go on to say whether cooperatives ought not to be instruments of State policy even in regard to members of the cooperatives themselves. This prejudice against association with the State dates from the days of a negative conception of the functions of the State. Freedom then consisted in being left alone. That for the weak and under-privileged generally, and even for the entire community under special circumstances, help from the State would be necessary to create favourable conditions for effective self-help and for real enjoyment of freedom was not so readily recognized. For instance, when supply of essential provisions was elastic, having consumer stores without special recognition from the State was easy. It was equally easy, and natural, to say that membership of a cooperative is like membership of a gentleman's club— not only it is voluntary, but it is selective. All this fitted into the economic complex of *laissez faire* and unregulated individual enterprise. When, however, supply is not elastic or, taking the other end, when as a result of planned policy all the conjunctural risks of economic activity are passed on to the State, neither can cooperatives work without special recognition from the State, nor is there any special economic function to be discharged by individuals in the sphere of enterprise. Freedom in the sense of absolute unrestraint for each individual has neither advantage nor justification.

On the contrary in such a context when it is open to the State to distribute resources and commodities in short supply through public, that is governmental agencies, which also would be non-profiteering channels, it may out of regard for efficiency of distribution or for the social and cultural values involved in a popular organization offer to distribute through cooperative channels. If this offer is accepted it would be natural to expect that membership will not be unduly restricted and conditions of sale such as prices, quantities and quality will not be such as run counter to State's policy. To ensure these two conditions suitable powers will have to be assumed by the State. In this situation, which is obviously natural and beneficent, membership cannot be said to be altogether voluntary, nor can the operation of cooperatives be said to be altogether free. All the same nobody would deny that in this manner of working cooperatives were contributing to keep intact to the maximum possible extent the limits of self-service as well as the limits of free action. It is most essential to realize that the limits of individual voluntarism and of individual freedom pertaining to cooperative organization are not absolute. They are relative to the general form of social organization.

For instance, to say that to the extent to which membership is not altogether voluntary, and to the extent to which the State retains regulatory authority over cooperatives, the latter are not cooperative at all, that they are to that extent collectivist, is to do offence both to language and to good sense. Whether an organization is collectivist will be

judged by reference to the nature of the whole society. In an authoritarian or collectivist society, every single organization, whatever its formal constitution may be, is in effect collectivist. That is why "cooperatives", "democracy", "federation", "freedom" have distorted meanings when viewed through communist ideology. But when we are thinking of a free society — a society which has freely elected assemblies, a free press and an independent judiciary — the functioning of cooperatives as participants in State policy, which is also the national policy, with the maximum of individual voluntarism and freedom consistent with social purpose as enunciated by the democratic State, cannot be justly called collectivist or authoritarian. It is legitimate democratically organized cooperation.

The question whether cooperatives should obtain financial aid from the State—either in the form of loan or capital or rebate—is irrelevant in this context. The justifiable limits of cooperative participation in State purpose, and of State influence on cooperative action follow from the social purpose, not from social assistance. Whatever the form and content of social assistance may be it would not justify an iota of greater control over cooperatives than is called for on account of the social purpose involved in their operation. On the other hand, even in the complete absence of governmental assistance or participation State control would be justifiable to the extent to which social purpose needs it. It is no exaggeration to say that in our country the powers of Government to regulate the actions of cooperatives have not been added to in any material respect on account of State participation in the capital of any of the cooperatives. Rather, the State which was all the while power-conscious, is being made increasingly alive to its positive responsibilities. To the extent to which the State becomes more alive to its responsibilities in regard to cooperatives its contact with them will be less negative and less irresponsible.

The underlying social purpose of selecting cooperatives as instruments of social policy consists in a desire to maximise the scale of private resources and of individual initiative. To ensure the realization of these two objects, Government assistance, in whatever form, should be given to such an extent and in such a manner as would bring forth a maximum of resource from the members themselves. Whether this is best done by adoption of the principle of contributory liability or by regulating the net advantages in keeping with the proportion of popular contribution is a matter of detail. Equally well the manner of exercise of powers of State regulation must be such as would leave the maximum possible scope for free action. Hence the State must never try to influence decisions by the physical weight of number of votes, nor should it normally interfere by the use of authority. As its assistance should maximise members' contribution, its participation in decision making should add to the knowledge and experience of the members themselves. Keeping State nominations to a minimum, and utilizing them to supplement the ability and the knowledge available to members are ways of using authority in support of successful use of liberty, and not in restriction of the same.

Being a society registered under the Cooperative Act is the least important thing about a cooperative. The most important thing is that it is organized for rendering useful service on the basis of mutual benefit, and that it is conforming to the socially accepted pattern of the use of resources. Any association, whether it is registered as a cooperative society or not, which answers to this description must be treated as coopera-

tive. Issues like limited vs. unlimited liability, area of operation, State help, etc. are important in their own way, inasmuch as they throw light on the operational efficiency of the organization. It is no longer enough to say what a cooperative society should do. It is obligatory to ensure that the cooperative is made structurally capable of actually doing what it is intended and called upon to do. So long as this active implementation of declared objectives is ensured, it would be wrong to suppose that any basic or absolute value, the loss of which should shock the conscience of a cooperator, is involved in deciding these issues. All organizational aspects must be kept constantly under review so as to bring about timely adjustments designed to maximise social usefulness consistently with maximum individual initiative and freedom of action.

A point of view which most people in India find it difficult to appreciate is that co-operatives are designed to be staunch and strong allies of a democratic Government, not its weak dependents. The half-hearted manner in which Governments have in the past dealt with cooperation is the principal reason for the so-called failure of cooperation in India. The Government no doubt helped cooperatives in a variety of ways. But by conforming to a somewhat rigid and negative pattern of economic individualism, which was being increasingly discarded elsewhere, by a complete absence of an active programme of productive improvement, and by exercising a purely restrictive control, instead of actively helping in building resources and competence, the governmental relations with cooperatives in most areas produced the maximum of frustration. It was only in a few cases where the Governments went all out to support cooperatives, to encourage them to take initiative, and to provide for training of cooperative officials and workers that a decidedly encouraging record was created by cooperatives. The operation of several cooperative banks, stores and factories in the regions favoured by a progressive and active State policy prove beyond doubt that cooperatives are capable of economic activity which without being any less efficiency than private business, is decidedly more patriotic and honest. Such favourable cases are at present rather few. But they, as well as a very large number of progressive cooperatives in other countries, prove the wisdom—economic as well as social—of the policy of choosing the cooperative, and not the authoritarian or collectivist, way in the programme of planned economic progress which we are following.

It is most unfortunate that our policy makers are reminded of this great truth only on occasions like big political gatherings, elections and general pronouncements on policies. When it comes to implementation of policy sheer ignorance or prejudice, at best an unjustifiable feeling of impatience, induces them to depart from the cooperative way. According to the predilection of each politician the escape from the onerous and responsible task of building a cooperative structure as a part of the nation's free existence lands them either in supporting private capitalistic business or in augmenting the scope of purely governmental organizations. For instance, dissatisfaction with cooperative financing and distributing agencies has occasionally led to the suggestion either that joint stock banks and private dealers should be assisted to carry out the purposes of State policy, or that the State Bank and departmentally organized shops should take over the functions now allotted to cooperatives. It is forgotten in both cases that apart from other defects of the policy of anti-cooperative deviation it is fatal to the purposes of democratic planning. In so far as a private agency is avoidably chosen in preference to a cooperative one purposes of planning will not be assuredly carried out and exploitative

conditions will emerge. If the escape is to a governmental agency, probably, though not assuredly, physical objectives such as distribution of loans and sale of goods will be carried out, but democracy which is the higher value will be sacrificed. In both cases the beneficial effect that cooperative organization has on augmenting the resources of small-and medium-sized private individuals, and of building up enterprise and competence on a wide scale is lost. Thus every avoidable step away from cooperation, either in the direction of private or of public operation is economically wasteful and socially unsound.

All those who ever talked of Cooperative Commonwealth and of democratic socialism, be they of the Congress or of other persuasions, let them once and for all make up their mind about the great truth: building economic democracy in India is synonymous with building cooperative business. The difficulties of the one are the difficulties of the other. It is just misleading and fallacious to argue that because cooperatives are less economical and less efficient, a bureaucratic or a capitalistic organization is chosen. The same would apply to democracy generally. It can be plausibly argued that the bureaucratic administration in India was cheaper in terms of tax-burden, and more efficient in terms of operational certainty. And yet what is our judgment of our democratic government? That it is burdensome and somewhat halting, but beneficent, with an overall surplus of an experience of freedom and of social welfare. No doubt it is variable and occasionally dilatory, but it is a people's government where the people at large recognize their authority as well as their responsibility. In all major things, therefore, it is more successful than the bureaucratic government. In several minor particulars it is less efficient, less certain and less quick than its immediate predecessor. We are hoping that with greater experience these faults will become less and less. But even with them we would not bargain away our freedom and our democracy for either an internal or an external autocracy.

The same reasoning applies in full to the conflict between economic freedom and economic autocracy either of an indigenous or of a foreign origin. Unfortunately people who have grasped this truth firmly are not represented in sufficiently large number in seats of power. In the integrated life which technological changes have made normal for mankind the principal field of governmental action is in the economic sphere. Political freedom and equality are for the most part meaningless in the absence of economic equality and freedom. Free and fair conditions of work are at least as important as self-government, not only as an ethical value, but as a condition of successful planning in a democracy. Hence to maximise resources, to evoke enthusiastic popular participation, and to ensure loyal conformity to the purposes of national policy, the cooperative sector must be sedulously and scrupulously built up. As stated earlier any alternative policy will be detrimental to freedom and welfare.

Nobody, and least of all persons of high competence and patriotism, would desire to bring about an eclipse of successful democratic planning. Impatience may, however, cloud clarity of vision and damp the enthusiasm for freedom. In all walks of cooperative business-wise organization, adequate resources, suitable training and helpful supervision are needed. It is only when such a policy of sustained action on the part of the State and the cooperative organizations has been vigorously followed for a long time that hopeful conditions would emerge. In some fields the position is even now well beyond the area of doubt. That the distribution of credit to the rural borrower must be arranged

through the borrowers' own organization is almost generally conceded. It may be that even now there are some enthusiastic officers who feel that the best way to reach the cultivator is through the talati. Probably it is, if it is only a question of paying out a given sum. But if an appraisal of productive needs, assistance in making proper use of the loan, and following the investment through all stages of production and sale are treated as essential features of a system of developmental credit, only an appropriate institution can ensure its successful operation. Our dissatisfaction with the shortcomings of co-operation ought not to blind us to the even greater truth that every other alternative, private or State, has even worse shortcomings. These latter are economic as well as social. We have, therefore, to forge ahead with cooperatives striving all the while to improve them. Experience has proved that a cooperative suitably backed at higher levels not only serves a larger section of population than any centralized institution can do, but it also promotes a higher sense of responsibility, individual and collective, even though the principle of unlimited liability may not be adopted in all cases.

For instance, as between a federated cooperative structure with a village base connected with the State apex through a district central financing agency on the one hand, and a system of branches of the apex or State institution operating as an intermediary on the other, the former has generally been proved to be superior in all essential respects. Under it more and better service is apt to be given and more local resources and initiative are likely to be called into action than under the latter. The institutional and private deposits of the cooperative financing agencies, which are an important and a growing part of our national resources, are for the most part the result of mobilizing small and medium savings. In any other than cooperative organization a large portion of these would be frittered away. In so far as in federated cooperative structure the management of each rung of institutions is penetrated by representatives of others, mutual knowledge and appreciation tend to be maximised. Relations are not as between a borrower and a lender or as between a buyer and a seller but as among jointly responsible persons. Here again for efficiency of economic service as well as for a free and democratic social climate, the cooperative type of organization is so inherently superior that all attempts should be concentrated on its expansion and strengthening.

The need for strengthening is the greatest at the village level. As a part of economic planning generally, and especially as an essential feature of national extension and community development, all farmers must be brought within the system of cooperative business, credit as well as the rest. To bring this about not only are large resources necessary, but a new outlook of equalitarian and progressive development is essential. While many villagers have been among members of cooperatives during the last fifty years it is futile to deny that cooperators themselves are not always free from the prejudices of the more propertied and more privileged persons against the less propertied and less privileged persons. Even cooperatives, like all social institutions sponsored by public support, are apt to degenerate into vested interests. To ensure that cooperatives fall in line fully with the objective of serving all sections of villagers who are participating in the development plan it is desirable to provide for enough safeguards against a spirit of exclusiveness or of wasteful use of public resources. Recent legislation on the subject is designed to secure this result.

In so far as the resources of the village primaries are limited, it is necessary to strengthen them further. The amount of loans which can be made to the primaries

must, for financial soundness, bear some relationship to their owned resources. If an immediate need for large-scale lending is recognized, it is far better that the capital structure is strengthened at the time of making the loans, rather than leaving the capital structure weak and making loans out of all proportion to owned funds. Though it is true that in a manner of speaking such strengthening of capital resources is to some extent done by importing external resources, still this must be treated as a legitimate way of building within the system a financial reinforcement which would contribute to the soundness of the whole structure. That the external strengthening should be drawn on to the minimum necessary extent of amount and duration, and that its form should be essentially cooperative are precautions which must be carefully observed.

At present, as a rule, the village primaries do not receive any deposits — current, savings or fixed. The reason, of course, is that the size of primary societies is so small and the level of their management is so amateurish that in their own interests as well as in the interests of the depositors the societies have generally to be discouraged from receiving deposits. But the situation is undergoing a marked change during the last decade. Not only have the villagers obtained greater experience, but as a part of national planning monetary outlays in rural areas are on the increase. Even apart from the effects of a policy of deficit financing the existence of large amounts of currency in rural areas outside the pale of the banking system would constitute a serious weakness in the planning mechanism. Village credit institutions can no longer afford to be merely lending institutions. They must take their function of promoting thrift more seriously, and holding the cash balances of members must be treated as a normal function of rural cooperative credit institutions. To achieve this without risk the societies must inspire enough confidence by their substance, their goodwill and the quality of their management. Any strengthening supplied to the village primaries on all these scores will enhance their usefulness to the members as well as to the nation as a whole.

The same need for building up the service capacity of primary cooperatives is apparent in regard to their non-credit functions. Credit functions are responsible and vital. But they are only ancillary to the more comprehensive function of initiating and organizing a developmental effort in all sections of the community. Mutual knowledge and local contacts are needed for this task along with the appropriate talent, and competence for efficient organization and management. Organizational assistance by way of material resources and trained management has to be fully adequate for the successful discharge of all developmental functions which the primary cooperative is expected to discharge.

It is a truism that no superstructure of national economy would possess any greater strength than the strength of the village base. All attempts at strengthening the rural primaries must, therefore, be treated as a *sine qua non* of cooperative reconstruction. In doing so it may be necessary to modify the present pattern in appropriate respects, such as the area covered by a society, sources of capital, and nature of liability. As experience of extension and community development has shown, for different purposes of development different areas have to be treated as community units. As a general proposition it can be stated that the nearer the centre of decision to the people the better it is for democratic management. But the capacity for effective service will also have to be taken into account. If the choice is between leaving “a single village” primary in a state of dependence and weakness, and having a multi-village unit which may muster

more adequate resource and strength which may enable it to carry out the purposes of its existence, the latter may prove preferable. As the scope of activity of rural cooperatives is now being extended to marketing, processing and other important functions the occasion for making a choice of suitable size and form will crop up again and again. While no rigid or dogmatic statement of merits is possible, it must be our policy to ensure adequate strength of operation to discharge the social functions which under the plan are placed on the cooperatives. Experience as well as a careful calculation of all our resources indicates that while it may be possible, with suitable care, to organize co-operative societies as mainly distributors of credit on a single-village pattern, for the multi-purpose developmental functions resources of more than one village would in many cases have to be pooled together, if plan objectives are to be actually realized. Success of the plan as a whole is built upon the success of all component plans, including the plan for village primaries. Subject to the functions designed for them being successfully carried out by the village cooperatives, there should be scope for variation in organization and method. An elastic and forward-looking approach is necessary in regard to the forms of cooperative activity.

Cooperatives are our deliberate choice, and they must be so organized and equipped as to ensure their success. The institutional equipment of all sectors of the economy, private, public and cooperative, has to be kept under constant review in the light not of rigid *a priori* ideas of right and wrong, but in the light of capacity to perform the functions of democratic development adopted by the plan. Within each sector and as between sectors appropriate institutional relationships have to be established. Three trends which have been gathering strength in our economic policy make an overall review of these relationships an urgent matter of public policy. The cooperatives are no longer a mere tolerated and protected group of the under-privileged. They are increasingly being adopted as a normal form of healthy and public spirited economic activity. On the other hand, business institutions in the private sector are being put under increasing restrictions, and they are in several cases being helped financially and in other ways. In fact, except for small units in a few branches of business there is hardly any pure private sector left. Still a vital difference would persist. Whereas in the public sector not only are resources public but decisions are also made by public agencies, in the private sector though resources to a certain extent are public, and an overall structure of policy and services is also provided by the public, positive decisions are to a large extent left to the private management themselves. In the cooperative sector resources may more clearly be of public origin, and their decision making may be more directly a part of public policy than is the case in the private sector. The cooperatives, frankly, do not form a privileged portion of the private sector. It would be more appropriate to describe them as a democratically organized and decentralized partner of the public sector. It is in this spirit that cooperative work must be carried on, and it is in this faith that the State has to adjust its relationship with cooperatives.

In the purely public sector the number and range of nationalized institutions is growing. The degree of nationalization and the form of management chosen for each nationalized institution is almost an essay in itself. It is, therefore, natural that while influencing the scope and manner of action of any one of these several forms of organization — private, cooperative, partially assisted and controlled, and fully nationalized — repercussions should occasionally be caused on others which are not intended. Indian

planning is not being done on a blank sheet, as happens when all, or almost all, traces of past institutional history are wiped off by a violent revolution as was the case in Russia and China. Fortunately not only our freedom struggle but also the organization of our economic institutions has been on the whole peaceful and evolutionary. The case with which a republican cabinet took over from a bureaucratic one as the chief executive in the Central and State Governments is only an instance in point. Other institutions like the Supreme Court, the Auditor-General, the Public Service Commission and the Reserve Bank of India are also important functional authorities whose position is governed as much by their history and by accepted conventions, as by the letter of the Constitution and statutes affecting them. In view of the changing purposes of national policy and especially in view of the nationally accepted programmes in the Five-Year Plan, changes may have to be made from time to time in the operation of these institutions.

In a democracy, and especially in a parliamentary democracy the cabinets are empowered to say what objectives must be served by the institutional framework of our democracy. This framework, including cooperative as well as governmental organs, must be kept in constant review. But whenever a feeling grows that in their present form any of them are not fulfilling, adequately and satisfactorily, a legitimate purpose of the State, a thorough inquiry should be undertaken to outline the course of reorganization and progress. To be true to democracy and to our own reasoned experience this is the only proper way of appraising and altering the basic institutional equipment which in its present form we have chosen for ourselves. That members of the cabinet should operate as executive heads and not merely as parliamentary ministers, that the Supreme Court's jurisdiction should be waived from certain spheres of legislative action, that the Auditor-General should not concern himself with the operations of public corporations, that the Public Service Commission should select a list of qualified candidates instead of recommending an order of preference and that the Reserve Bank of India should transfer its functions of rural credit to the State Bank of India, which may itself deal directly with primary cooperative societies are only some of the major proposals for structural reorganization in the institutions of our democracy which are made from time to time. Any government of the day before it sets its hand to any such major alteration in the basic institutions of the nation ought to equip itself with the results of a thorough inquiry into the subject. While it is not obligatory on government to accept the results and recommendations of the inquiry, the government owes it to itself and to the country generally that a thorough inquiry is held before major changes in important organs of national life are contemplated.

The principal merit of the Rural Credit Survey Committee's report lies in the facts of the situation and of experience which it has systematically collected and which have been made the basis of its recommendations. Few who have actual experience of the working of rural cooperation over the last fifty years will feel inclined to disagree with the Committee's finding that local knowledge and honorary management which were expected to be strong points of village societies have as a rule failed to bring about desired progress in the scope and competence of their business. If progress in the extent and quality of service is to be realized in a measure commensurate with the purposes of the Plan a major reorganization of cooperatives substantially in accord with the recommendations of the Rural Credit Survey Committee would seem to be imperative. Broadly these recommendations have been accepted by all concerned — by cooperative organiza-

tions, by State Governments and by the Union Government. Most of them have been incorporated into the Second Five-Year Plan, and crucial steps such as the nationalization of the Imperial Bank of India, amendment of the Reserve Bank of India Act, creation of earmarked funds by the Reserve Bank and State Governments, and the setting up of the National Cooperative Development and Warehousing Board have already been taken. All those who are interested in the success of the Second Five-Year Plan should now concentrate on pushing forward with united strength the cooperative programmes made on the basis of accepted recommendations.

In doing so there is no need to disturb the existing structure too suddenly, and certainly not by any measure of official coercion. In this as in other aspects of Indian progress gradualism and variety would be more in keeping with Indian conditions and temperament than rigidity and enforced transformation. But the emphasis of newer developments must be on ensuring adequacy and efficiency of service in keeping with the purposes of the plan. It is, on past experience, a very reasonable expectation that comparatively larger societies doing multi-purpose business will be able to promote development more satisfactorily than small-sized credit societies. Those who are inclined to doubt this lesson of past experience may be reminded that some years ago many people, who thought that they knew better, doubted the legitimacy of the multi-purpose pattern which was then newly recommended. It is now the turn of the large-sized society. The urge towards widening community of interests and towards emphasizing all-round efficiency of service is so great that willy-nilly the larger area of operation will come to prevail. This is happening all over the world. If some people want still to stick to the "pre-war and pre-plan" model let them by all means do so. But let the rest have freedom and encouragement to go forward with what they in common with the progressive parts of the world desire to do. Aspects like strengthening and training of staff, establishment of marketing societies and warehouses, and promotion of processing industry are so unanimously adopted as **sine qua non** of further progress that nothing would justify a slowing down of the pace of progress in regard to them. The last year and a half has seen little progress in the actual working out of cooperative plans, except in a few selected areas, e.g. the pilot areas and in the cooperatively developed States. If the same hesitations and divided counsels dog the step of cooperative workers in the years to come a large part of the agricultural portion of the Second Five-Year Plan would be seriously in peril. A determined drive behind all parts of the second cooperative plan is urgently called for if our expectations of progress during the current plan period are to be realized.

Cooperative Education : Retrospect and Prospect

I AM very happy indeed to have this opportunity of meeting many old friends after a lapse of some time and to speak to many young people who are trying to educate themselves in several aspects of cooperation. There was a time when all education, especially professional education, was left alone, without any institutional provision. You learn by making mistakes. In such a system it often happened that you only made mistakes and you did not learn, and in large measure there was a misapplication of energy. When society is in a static condition, things do not change very rapidly. Everything is done by custom. The traditional system of learning a job was perhaps not very harmful in such static conditions. But when we have changing life, progressive life, programme after programme being adopted with a view to bringing about a planned reform, it stands to reason that we cannot trust the old system of learning on the job alone or learning by making mistakes or learning merely by association with people who are old at the game.

It was in the fitness of things that this fact was realized in cooperation before almost any other reform or developing activity. From the beginning i.e. now over 50 years ago, cooperation has been undertaken mainly as a reform movement. There was a spirit of idealism and also a spirit of determination among those who initiated this movement. In cooperation what was necessary was not only good technical competence but also a good spirit of social service and progress. Training for cooperation, therefore, was specially difficult. You can teach a person philosophy without bringing in practice. You can also perhaps take a man in hand, put him to the grind of practical work and hold him to discipline until he becomes a dependable instrument of efficient action. But to mix the two — to tell a person that what he is doing is really not an end in itself and yet it is to be done well, that what he is doing is good sound social work, is mixing two things which it is not so easy to mix, either in the giving or in the taking. And still, it has to be done because it is our hope that we can do business,

Extracts from the speech delivered on the occasion of the Annual Social Gathering of the College on November 26, 1961. Reproduced from *Cooperative Studies*, Journal of the Cooperative Training College, Poona, Vol. V, No. 1, January, 1962 pp. 10—17.

we can conduct the complicated affairs of a modern economic society on a high level of competence and yet in a spirit of cooperation and brotherhood.

It is in this hope that cooperation is done— that cooperative education is done. There is no doubt that cooperation, as also cooperative education, has come to stay. Things will change. It would be something awfully unnatural if things were not to change. Changelessness is unnatural and it is death. If, therefore, there is a change, it is welcome thing. But there are some established principles of experience and it would be very unfortunate if these were to be departed from. Looking at a gathering like this, which, as the Principal stated, is by no means the first and by no means the last of the series of trainee groups who come to this centre, one is reminded of the several things which are now taken for granted but which were not so taken for granted when this institution was started.

What were those things ? One of the most important things which has stood the test of experience and scrutiny is that as cooperators there is no essential difference between an official and a non-official. Whether you are paid for your services because you give all your time to cooperation or whether you are not paid for your services because you choose not to be paid or because you are using only your spare time is a comparatively non-essential matter. There is no reason to believe that the principles on which an official — either in a cooperative institution — or in a cooperative department — acts are different from the principles on which a full-time cooperator or office-bearer of a cooperative institution acts. It becomes increasingly clearer in a democratic society with a national plan that the efficient working of cooperative institutions is a concern not only of those who are members of a society but it is a concern of the whole community. The nation as a whole takes the view that cooperation must be introduced in our schemes of development in certain fields and in a certain manner. The entire cooperative activity is thus a shared activity so far as its end result is concerned and because it is a shared activity, naturally everybody who is connected with it from whatever angle has to be educated for his respective role in that common effort. It was, therefore, natural that when we had an institution which imparted training in cooperative philosophy, in cooperative history, in cooperative programming, and in some technical subjects, such as law and accounts, a common programme of training was organized. It was equally natural that special subjects were provided for people who were employed in a particular way. Those, who were employed in banks would be getting training in banking; and those employed in the department would receive training in the working of the department. Though there was specialization of interest, there was a common approach and a common study of the principles which was most important. I am happy to be reassured by certain recent events which show that after some searching inquiry people have become confirmed in the conclusion that the main principles of cooperation, and the basic appraisal of value in cooperative activity should be common to all participants in cooperative activity. Now, that is something which this and similar institutions should try to do.

Recently I met a friend who had gone round the country, attending several important meetings of cooperators. He made a suggestion which was made to us before, but which we have found rather difficult to carry out. He was attending a big conference, at which he met 3 or 4 senior cooperative officials who said : “We look back on our period of training in the Poona Cooperative Training College with great affection and

respect. We wish that we should again gather in the place at least for a short session and hold intimate conversations among ourselves about our experiences and problems which confront us." This sort of looking back by all cooperative workers all over the country to a common source of interpretation of what cooperation is, what it ought to be, and how the main tasks confronting them should be tackled, is of great value. The fact that this value of a central institute is being appreciated is a great thing.

There is a school of thought all over the world which feels that cooperators should not worry about the business aspects of its activity. On our part we desire that the whole life of a person, including his business life, should be honest, it should be guided by principles of cooperation, that is of mutual aid. I recall what Mahatma Gandhi said about politics, namely, "That which is morally wrong cannot be politically right." So also, that which is morally wrong cannot be commercially or economically right, because it may then be right for one party to the bargain but not right to both the parties. We must do our business well but we ought to do it in the spirit of cooperation. You will, therefore, see that the main principle of cooperation has been mutuality in place of exploitation. In cooperation it is not one who benefits at the cost of another. Both exchange equal satisfactions as one serves the other as much as the other serves one. It is these principles which more and more ought to guide all our activities. There may be changes in practical objectives, in plans and in organizations, but if in all this change we keep firm in our minds the main principles, which may be called the eternal principles of appropriate social relations, we shall have guided ourselves as rational people with capacity to subordinate their animal instincts to a human purpose.

I would like to place before you a few such considerations which may have some bearing on problems which are at present confronting cooperators and which may confront them in the near future. All countries in the world, without any exception as between communist and non-communist countries, are today professing welfare economies. Those who are in charge of these economies claim to organize them for the augmentation and for the widespread distribution of welfare among their people. Communist Russia is not lagging behind in these claims as compared with capitalistic America. Their claims are the same. Both want to see that their people have an equal opportunity of sharing in welfare. The difference is not in their objective of common welfare. The difference is in their approach of method and organization to reach this end. I shall not take it on myself in the present context to decide the merits of that difference.

In this connection I would like you to recall some features of that first organized civic experiment of cultured and progressive life which we know as Greek Civilization. Who has not heard of Athens that was a high watermark of free and cultured living. Everybody could pursue knowledge as he wanted to do. Everybody could express himself as he thought best. While obeying the laws of the State and participating in their implementation one could try and convert one's fellowmen to any path of progress. We have to reproduce conditions which characterized Athens in the days of philosophers like Socrates, Plato or Aristotle and democratic statesmen like Pericles. But even in Athens this free and cultured life was assured for the free Athenians and not for the large number of slaves, or trading people who had come from all over the world. For the top, for the select few this was the type of life which was essentially oligarchic. The life at Athens was common as an ideal for most cities of Greece.

But there was another city, equally well known, if not better known — the city of Sparta. Even today when you get a man with austerity, determination, an unusual strength of character, you say that these are Spartan virtues. In Sparta, even children had to be brought up and trained in public as the concern not of their parents but of the community. Sparta and Athens — they represent two aspects of one and the same enlightened and freedom-loving human being. In one system viz. the system which we associate with Soviet Russia, welfare is the product of a society in which centralized authority, common direction and selective leadership of the party — these are the instruments of efficient action. This is one system where centralization, common direction etc., what we call authoritarianism and totalitarianism, predominate. On the other hand, you have got a free society or a democratic society, in which decision-making, responsibility for results and correlation between what you would get and what you put in are individualized to the largest possible extent. This is decentralized democratic type of organization. The same forces of science and the same forces of organization predominate in both the systems.

Now, cooperation, as we understand it, is an adjunct of a free society because we believe in decentralization, because we believe in the maximum dispersal of the power of decision-making. Rather than telling people to do a thing, maybe even a good thing, we leave them to find out what is good so long as the existence of society is not at stake. Unless the existence of society is at stake as during war time, it is best, more moral or more human, to leave people to find out what is good for themselves, making it clear to them that what they get out of their efforts will be dependent on what they have themselves done. It is in the pursuit of this ideal that cooperation, as a form of organizing all the aspects of human life, is being welcomed in our country.

In spite of the two Five-Year Plans we have yet a very long way to go before we reach the goal of full and equalitarian welfare. We can see from succeeding census figures, that recently longevity has changed for the better. But relatively the percentage of rural population and the percentage of population dependent on agriculture has not changed much and never very rapidly. In a country like ours where three-quarters of population lives in villages and over two-thirds live by agriculture, a small rise in national income, or things like that, are not of any real significance. The statistics published in these respects may be true in themselves, but sometimes things are true to the head but do not ring true to the heart. What we want is a change which will be recognized in the country at large. It must take place in the life of these three-fourths of the people who live in villages mostly by agriculture. It must be real in the experience of these people and their families.

Undoubtedly when we talk of cooperation, we want to ensure that the main business of the rural people viz. agriculture, the main interests of the rural people viz. the welfare of their villages, the main hope of the rural people viz. the education of their children — all these are guided according to the principles which we call the Athenian principles, the liberal principles or the democratic principles. It is in this context of reconstructing the life of the villages according to democratic principles that cooperation has its ultimate justification and its ultimate fruition. It is, therefore, very welcome sign of the times that we are now going ahead, in large measure, with progress of decentralization and cooperative action which we want to take root and prosper in villages. I am quite sure that if progress along these lines is continued for decade or so, we shall

have an altogether changed society in this country. When education is not the privilege of the few, when cleanliness is not the habit of the few, when participation in collective affairs is not the monopoly of a few chosen leaders, you will see how tremendous would be the change which will come over society. The future progress, assignments and justification of cooperation will be in ways in which till now we had not moved very far.

What we have done till now is only the beginning. I may here sound a note of warning. So long as progress and leadership are urban, they tend to be essentially non-democratic. They lead from above. They do not lead as a growth out of the life of the common people. It may amount to good done for the rural people, but not by the rural people. Therefore, the bond that binds them in a cooperative or a village body is not an organic one but a mechanical one. If the life of the villages were to be stirred by real freedom, if it were to be organized by new principles by mutual aid, I am sure a new leadership will emerge in the villages. If you give wide opportunities to people all over, leadership will emerge from the people. Cooperation and democracy practised on the widest possible scale give opportunities for leadership to emerge from all quarters in a country.

The only thing that we have always to remember is that because you believe that villages will be strong foundations of democracy and of cooperative development, it does not mean that they can do without the assistance, guidance and cooperation of their own friends who have experience of organization at centres which represent larger gatherings of humanity. Now, that is where sometimes our mind works like a pendulum. We tend to go to one extreme before regaining the mean, and then again we move on to the other extreme. We have to integrate the life of the whole community in such a way that, that which can be done on the primary level is left to the people at the primary level; that which has to be done at higher levels because of the required standards of experience, resources and competence must be left to the higher levels. But the higher levels must be largely composed as federations of the primary units. This federated integration is a very skilful and a very difficult thing to work out. We ought not to pay an inordinately high price in acquiring it.

In particular, in the cooperative sphere, speaking about the Maharashtra and Gujarat States, I can say that we have here an experience which is very strengthening to the hope that even higher levels of action need not be authoritarian. Cooperative activity in a primary has to be guided by deliberation, by decision, by action taken by the members themselves. What sanctifies cooperation is not that it is called cooperation. Because a cooperative society is registered by an Assistant Registrar as a cooperative society, it does not necessarily become cooperative. 'Cooperative' in law is quite a different thing from 'cooperative' in practice. But to be actually cooperative, you must be guided by the principle of mutual aid and mutual toleration. Having moved round the world and having known what the possibilities of the situation are, I am not at all satisfied with the rate at which we are moving in this regard.

Other countries with less resources but greater determination have made much more progress. With reasonable effort we can, within a generation, reduce our present dependence on agriculture of the order of 2/3rds to the order of one half. If from a ruralization of about 4/5ths you come down to a ruralization of 3/5ths i.e. from 80 per cent to 60 per cent and that in a period of two decades or so if some such change takes place,

then only we are worthy of the ideals of socialistic pattern of society and rising welfare by which we swear. I have faith that if we follow in the way of decentralization and cooperativization of our life by making more and more people in primary areas responsible for their welfare, helping them to the maximum possible extent, a programme to realize radical improvement ought not to be very difficult.

Finally, I would like to say to you that whatever else you may do later on in your cooperative life, be sure that even the smallest thing that you do, even the smallest accent of your reply to a person who is seeking an interview with you, is something which is a contribution to making progress along democratic and progressive lines. Cooperators at all levels have above all to care for human relations. Human relations matter a good deal. We can be a happy people even if we are a poor people. We can be happy people even when we were dependent people as can be seen from the fact that even in a prison camp fellow political sufferers lived like a family. Even hardships, when they are equally shared, become bearable and contribute to a sense of uplifting oneness. Good things equally shared ought to make us even happier and more sublimated. All our ambitions may not be realized but in whatever stations we are, in cooperation and in democracy, we must care for feelings of one another. I am sure that this hope is not altogether an act of wishful thinking, and that it will be realized soon.

I thank you and I wish you all success in your life.

Role of Managing Directors of State Cooperative Banks

THE Reserve Bank has a two-fold role in regard to all banks, including the cooperative banks. One is that of the lender and the other is that of the leader of the banking system as a whole. The latter role is more important inasmuch as it is the responsibility of the Reserve Bank to ensure that all banking institutions conduct their affairs in such a manner as not to endanger the interests of their depositors and to be able to make their legitimate contribution towards the progress of the national economy. A sizable cooperative sector is being built up both in the nation's economy and the nation's banking. The Reserve Bank, as the head of the banking structure of the country, is responsible for ensuring soundness and progressiveness among banks, irrespective of whether they borrow from the Reserve Bank or not. As a matter of fact many joint stock banks do not have occasion to borrow from the Reserve Bank, and even those of the scheduled banks who actually borrow account for a very small sum, as compared with the steadily expanding amounts which are being lent to the apex cooperative banks. It is, therefore, not the leader's position of the Reserve Bank which is significant in its leadership of the banking system as the national responsibility for soundness of currency and banking vested in it by the law of its incorporation. In this respect the relationship of the Reserve Bank is the same with all banks including the cooperative banks.

I would like the executives of the state cooperative banks to appreciate the importance and responsibilities of their position in this wider context. As a general rule the members of the Board of Directors, including the Chairman, tend to be non-professional persons so far as banking is concerned. It is not denied that they are interested in the welfare of the institution and that they have among them quite a good proportion of well informed and practical men who go on gathering more and more experience as the years roll by. This is largely the situation in the bigger scheduled banks. But even

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there the position of the General Manager or the Managing Director as the principal professional adviser and the chief executive is unique.

In cooperative banks in addition to the general lack of professional knowledge of banking on the part of directors, there is the added trait that most, if not all, the directors are primarily acting as the representatives of borrowers, and only secondarily as share-holders. In some respects this position is an improvement inasmuch as it tends to maximize the quantum and ease of credit. But with a board interested primarily in the borrowers the interests of economy, efficiency and soundness are apt to recede into the background. It is the chief executive who must in these circumstances assume responsibility for offering sound professional advice.

Given normal relations with his Board a Managing Director can be assured of having his viewpoint sustained in discussion. If he has the further capacity to carry out the duties of his office with requisite attention to his public relations, he should soon attract general support for his line of policy. It is in this context that the Reserve Bank prefers to have at the head of banking institutions persons about whose competence and integrity no doubt could exist. I can say from some personal knowledge of successful cooperatives in other countries that their reputation and goodwill are measured by those of their chief executives. A state cooperative bank is as good as its Managing Director can make it. He holds a position which has special relationship with his Board on the one hand and with the Registrar and Government on the other. In matters of cooperative policy he will have to take his norms mostly from these authorities, but so far as banking principles and procedure are concerned he would be expected to be an adviser of both.

It would be a legitimate ambition on the part of every bank to deserve and to claim the status of a scheduled bank, especially the privilege of having its signatures accepted as one of the two which would entitle it to facilities of Reserve Bank advances. To be put on the list of those who can borrow only on Government guarantee is to acknowledge a status of immaturity. It is the objective of the Reserve Bank to help cooperative banks to build an independent status for themselves. To attain such a status the financial soundness and managerial efficiency of these banks must be comparable to those of scheduled banks of comparable size.

There are many features of the working of state cooperative banks which will strike one as being in need of considerable strengthening to entitle them to be recognized as on par with scheduled banks, and I am sure it will be the steady endeavour of their Managing Director to bring about necessary improvements in these respects. Even from the standpoint of ensuring normal business relations with other banks, and especially with the State Bank of India, much obvious improvement on the part of cooperative banks is necessary. As you are aware, we are expecting that the State Bank of India will play an expanding role in strengthening the resources of the cooperative banking structure in the sphere of marketing and non-agricultural finance. To maintain the integrity of the structure of cooperative finance it is to be desired that the State Bank should normally play a collaborator role, rather than an independent one. This would, however, depend among other things on the standards of soundness and efficiency reached by cooperative banks themselves, and how far this is achieved will depend largely on the quality management of apex banks.

We attach crucial importance to the apex bank management as they are the only professional and institutional channels through which Reserve Bank loans as well as Reserve Bank guidance can be made effective. For more reasons than one we would desire the apex banks to play in relation to the other cooperative banks a role of a central bank, as a balancer of funds, a source of additional borrowing and a guide to professional rectitude. That is why we route our own moneys through the apex bank and as a general rule try to enlist their participation in the implementation of any policy which ultimately affects the whole cooperative structure.

A few of the apex banks are already playing a significant role as coordinator of the activities of cooperative banks in their States. We would desire that at the soonest possible date all apex banks should be able to do so as further progress of Reserve Bank's policy of relying on apex banks as a dual representative — that of the Reserve Bank towards the cooperative banks and that of the cooperative banks towards the Reserve Bank — will depend on the quality of their own work and of the guidance which they are capable of offering to other cooperative institutions. Maintenance of fluid resources, observing bona fide and sound procedures in granting extension, scrutiny and supervision of term loans, discouragement of investment of funds in shares of non-banking institutions are only some of the features in regard to which not only must the record of an apex bank be clean and progressive, but it must be able to ensure that all cooperative financing institutions affiliated to it follow high enough standards in these and other important respects.

It must be recognized that in a number of cases apex banks tolerate for themselves and for their affiliated banks standards which leave much to be desired in several essential respects. I was shocked to hear management of even some of the more reputed apex banks putting forward extenuating pleas for defaulters, in many cases major and frequent defaulters. It is difficult to recognize the claim of any institution to be a bank, to be recognized by the Reserve Bank as a bank, if it is itself guilty of default or tolerates defaults on the part of other institutions with which it has normal relations. How can one advise any one individual or institution or a local body, to keep their funds in deposit with a set of institutions, called banks, which look upon default of due obligations as a more or less normal occurrence, a mere technicality.

The same must be said about the somewhat complacent attitude adopted by most of the banks towards mounting overdues. Whatever may be the causes that lead to overdues there cannot be the slightest doubt that as a general and rising feature they are a sign of ill-health. A banker who does not see in them the writing on the wall would be a poor guide either to those from whom he borrows or to those whom he lends. On both these topics, defaults and overdues, I would urge all of you to develop a professional conscience which would instinctively react firmly and strongly against them.

I do hope that matters such as implementing a system of seasonal issue and recovery of loans, financing of non-agricultural societies, raising of deposits, especially term deposits, advances against warehouse receipts, and the lending rates of apex, central and primary societies have been adequately discussed. I would in particular like to emphasize the role of financing agencies, especially apex banks, in regard to inspection. As with the Reserve Bank, so with these banks, not only because they are lenders of supplementary funds, but even more so, because they are institutional leaders and guides they must ensure by frequent inspection, first, that the whole procedure of claiming, routing

and using of loans is being carried out in a satisfactory manner, and secondly that the financial affairs of these institutions are being conducted according to approved standards. This function which is inherent in the position of apex and central banks as lenders and as federated units is distinct from that of either professional or departmental audit. The need for such inspections on the part of apex banks is becoming more and more urgent on account of growing pressures of development.

Part II(b)

Indian Agricultural Economics

THERE is no doubt that, in part, economics is a fundamental science. There is a logic about the mutual interdependence of economic concepts, which have a definition of their own. Equally well, there is a grammar of coherent and significant economic expression which though by no means uniform, has been attaining wider acceptance in recent years. If this was all the progress made by economic thinking, economics would have remained a struggling brother of logic and grammar, and no more.

But economics is more than a fundamental science. It is a study of an important part of human experience undertaken with a view to improving it. Economics is thus an applied science, seeking to throw light on all the significant questions regarding our material circumstance, e.g. possession of means of production, technological progress, access to resources, forms of organization, social overheads, fiscal policy and planning. With continuously changing pattern of technology, and economical scale of operations, not only mutual dependence within each nation, but mutual dependence, and therefore the need of mutual cooperation among nations are assuming vital importance. It is no exaggeration to say that by far the most prominent part of social life and of State policy is now the economical one.

It is possible that in certain contexts, economic growth may be ushered in and sustained by progressive changes in fields other than agriculture. But as a general rule, the process of upwards change, be it the old fashioned Industrial Revolution, or the more recent concept of take-off, has encompassed agriculture pretty completely before the full effect of development was assured. Countries in which the change in economic organization and social policy was natural, had, as a rule, conferred on the economics of agriculture an importance, second to no other part of economic organization. In fact, where the agricultural interest was socially dominant, or was subject to great vicissitudes of season and demand, agricultural economics came to play a more important part both in academic and administrative structure. As an instance, it may be mentioned that till very recently, agricultural economics was academically better organized and politically a more effective branch of scholarship in the U.S.A. than

the general economics. As agricultural economics came to be accepted as a socially valuable study, and as the importance for individual enterprisers, as well as for the nation, of transport, tariffs, industry, finance, employment, and industrial fluctuations became more and more obvious and pressing, these other branches of economics also come into their own.

As is well-known economics in India had its origin in the strong feeling of contradiction between theory and experience, which English economics presented to Indian scholars a century ago. With all its limitations, the formal theory of economics was well understood, and as a system of thought, like several others with which Indian scholars were familiar in their own country for centuries, was well appreciated. But when it came to social policy in the sphere of economic life, the dominant *laissez-faire* doctrine of British economists was seen to be contrary to the highly structured tradition of Indian society, as well as to the natural urge, and continental and colonial example of a contrary policy of active promotion by the state of legitimate economic interests of the nation. Apart from this fundamental question of the relationship of the State and the individual, in economic and other spheres, there was the other equally prominent question of the implications of a politically dependent status of the country. Colonialism in administration manifested itself in several exploitative measures in taxation, expenditure, tariffs and industry. It was natural that next to the basic question of the role of the State in economic development, these other questions should attract more and more attention.

The latter half of the 19th century was largely a period of economic prosperity for Great Britain, and for the self-governing parts of the British Empire. By contrast the plight of dependent parts generally, and of India in particular, was becoming increasingly desperate. The series of famines and epidemics which marked the close of the last and the initiation of the present century were only a manifestation of inner malaise of a neglected and what is worse a perverted, structure of relationship between the people and the State. It was the challenge of the famines that set in motion a new current of official thought, more favourable to constructive economic action than was fashionable when the nineteenth century closed. Famine Commissions, Agricultural Commissions, Industrial Commissions, and Irrigation Commissions, all from differing angles, came to the same conclusion, namely that unless the main industry of the people, agriculture, was made more productive and progressive, farmers, and generally the nation, will remain exposed to the worst ravages of famine, disease and war. A positive approach to agricultural policy, including agricultural education, evoked analytical, historical and constructive thought in the sphere of agricultural economics as well.

However, till the 'thirties of the current century, agriculture continued to be treated as only one of the several topics among which general economic studies were divided. Except a few publications by persons closely associated with agricultural administration there were few books on the subject of agricultural economics. It is true that a large part of earlier thought on the subjects of land revenue, famines and irrigation had a distinctive contribution to make to a systematic study of the economics of farming as a business. But it was not till the monumental work of the Royal Commission on Agriculture, 1926, presided over by Lord Linlithgow, who later became Viceroy and Governor-General of India, that agricultural studies, including the study of agricultural

economics, came into their own, academically and socially. The formation of the Indian Society of Agricultural Economics, and the holding of annual conferences of its members, are directly connected with this phase of development.

While it is true that major developments in national policy are principally responsible for a spurt in the study of agricultural economics in India, it is equally obvious that had it not been for the personality of Sir Manilal Nanavati, the rich background of his administrative experience, the prestige that his position in the world of finance and business gave him, and his inimitable flair for comprehensive, analytical and constructive thinking, the progress made by agricultural economics in India would not have been so striking as it is at present. No doubt, he has been helped by a few devoted colleagues spread all over the country. But the initiative, the direction, and often the resources, had to come largely from, or in any case through, Sir Manilal himself.

With the advent of democracy the agricultural interest is coming more fully into its own, and with the advent of national planning the place and fortunes of agriculture have become subject of continuous interest. Problems like food shortage and the almost equally perennial shortage of raw materials, have given a new sharpness to studies of agriculture as an industry, and as a business. The growing number of faculties of agricultural economics, the increasing membership of the Association, and widening of its affiliations beyond the frontiers of the country are all indicative of a new stage of expansion. The economics of agriculture, as a part of the economics of the country as a whole, need to be studied with intimate knowledge of agriculture on the one hand, and with a sound perception of economics and economic policy on the other. The need for such a competent and comprehensive study has become all the greater on account of the constant pressure of the planning process. We have the well-advertised Five-Year Plans of our country, but the almost continuous reappraisal of plans which goes on through less advertised but more effective gatherings is even more significant for study, as well as for promoting the fortunes of agriculture. It is no exaggeration to say that even among the body of economists, who are consulted as significant stages of plan-making, the number of those who are either competent to speak about agriculture, or care to emphasize the position of agriculture and the agriculturists, is very small. Unless the gulf between agriculture and economics is more successfully bridged, and unless the study of agricultural economics is undertaken on a high level of research competence and policy awareness agricultural economists will not be able to make their full contribution either to shaping national policy in regard to planning, or to safeguarding and promoting the legitimate interests of agriculture.

The work which has been started on such strong foundations by Sir Manilal's efforts, needs to be strengthened further by cooperation with other Indian and international agencies. With Sir Manilal's continued support we may look forward more confidently to attaining these stages of much-needed development.

Agriculture in a Developing Economy

THE concept of development bids fair to occupy in the Twentieth Century economic and social thought something like the position which was occupied by the concept of progress during the Nineteenth Century. During the last century and the early years of this one, it was usual to assume that all things were shaping for the better almost by a law of natural evolution. While sustained action on the part of individuals and their voluntary organizations was looked upon as the principle channel of the flow of better things, action on the part of the state, acting with directive power, was definitely disfavoured. This line of reasoning has sometimes been described as a doctrine of optimism. In truth, however, it was a ruthless doctrine inasmuch as for individuals and for nations the law of biological evolution, survival of the strongest, euphemistically described as fittest, was held to be inexorable and, in essence and in the long run, beneficent. Individualism thus meant entrenched capitalism, which inevitably gave rise to overt and covert monopolies. These in the end killed the very individualism which the doctrine of freedom professedly upheld. As among nations, freedom to each nation to chalk out a destiny for itself, and acquiescence in war as ultimate means of settling disputes among sovereign states, gave rise to empire building and colonialism. The two World Wars, and the inter-war Depression, are held to have discredited both individualism and colonialism. In place of progress, we now speak of development; the place of individualism has been taken by socialism; colonialism has been replaced by self-determination; economic freedom has given place to planning; and survival of the fittest has been supplanted by a social and international responsibility to help everybody to share in the common responsibilities and opportunities of the human race. The United Nations represents this concept in its most developed form, though it must be viewed in its historical perspective.

In the Nineteenth Century doctrine of evolutionary progress the element of inevitable and almost automatic progress was attributed to the working of cosmic or universal forces taken as a whole. The accompanying doctrine of survival of the fittest supplied the element of selectiveness and individual choice. For individuals within a

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social group, and for a group as a whole, whether there will be progress, and if so of what type and at what pace, would depend on subjective as well as objective factors. Within a community, a regime of free competition would help the help-worthy to attain progress, and a community which has a large enough number of such eligible and successful members, and which also has the necessary leadership, would hold its own among nations. The new concepts of social justice which are now largely accepted in almost all countries have modified the rigours of this logic. An individual within a community is on the one hand treated as an integral part and a creature of the world around him. Both his advantages and disadvantages have their origin to some extent in his surroundings, and in any case the responsibility to ensure that all members of a community of persons and of nations have a fair chance of attaining progress is largely shared by the community concerned.

Even though the burden of responsibility is thus widely shared the deep rooted variability among persons and areas does not lose its crucial significance. Even in the most socialistic and egalitarian societies all persons do not actually share in the life of the community to the same extent. Individual variations, not necessarily of possessions, but of the worth of each citizen's contribution to common life is at least as obvious in a socialist as in a non-socialist society. Similarly among the nations of the world a formal equality of status does not make for a real equality of contribution and benefit. Apart from the human factor, physical differences intervene to create a disparity which is a challenge to the sentiment and capacity of those who would think of a universal law or pattern of human progress. Overriding the differences which exist among several communities at any given time, either natural or human, there is the difference which arises because of the several communities being at different stages of their progress. The concept of historical stages has been widely accepted, both in the academic and reformist literature on the subject of economic progress. While some of the principal characteristics of each stage may tend to be uniform, a significant number of features are variable. The variability in the complex of conditions associated with each stage arises mainly on account of the special features which characterize the human component of each society. There is a strong interaction, it is true, between physical and human conditions. These latter change in keeping with a number of inter-community and intercommunity relationships spread over centuries. While, therefore, a national or long-term similarity of pattern of change can be predicted for humanity as a whole, for particular communities it is more important to study their problems in their own specific contexts, of which the broader universal content is only one, though a very important part.

The relativity of the fact, as well as of the manner, of socio-economic development to the particular natural and human conditions of each community is most noticeable in regard to agriculture. All undeveloped and developing economies tend to live by exploitation of land in one form or another. As the principal economic occupation is concerned with land, the rest of the social life of the community also tends to be very much under the influence of the prevailing system of land holding and land use. The whole pattern of social power and prestige, as well as of access to the means of development, depends upon access to land. It is impossible in such societies to think of any major development affecting the whole society unless the mass of the people, most of whom look upon agriculture as their only source of useful employment, are influenced

in the direction of more progressive action. There is both a physical and a human reason for this inescapable priority of agrarian movement in developing countries. Every step in industrialization, and its concomitant urbanization makes a call for increasing quantities of food and raw materials contributed mainly by agriculture. The products of the labour of those who are industrially employed cannot normally be consumed by themselves: they must find customers from among those who are non-industrially, that is in the main agriculturally, employed. Even for the growing need for capital investment unless surpluses created in agriculture, which in early stages of industrialization is the main occupation of the people, are made available the capital intensive stage of all-round production cannot be initiated. Growth and development in physical terms are essentially the result of the creation and sustained application of a spirit of progress and innovation among the people. In the past there used to be a school of thought which held that modern progress in its inception as well as growth, is essentially an urban process. Hardly ever was there any justification for a universal generalization of this sort, and recent studies, as well as growing experience, have proved beyond a doubt that there can be no improvement in the capacity and comfort of the national community as a whole, except through the upliftment of the whole tenor of life of the common masses. Of these, the rural population is an integral, and in most cases the predominant part. A nation whose rural population is rustic and passive can never hope to possess an active and progressive, much less a popular and democratic, civilization. For all these reasons progress in developing communities depends vitally on the extent and manner of the reformist movement in the agrarian sphere. But this latter is subject to variation from community to community in keeping with physical and human conditions.

This variability of physical factors and of their mutual reactions on human behaviour makes of progress more a challenge than a current. Physical conditions, including purely physical attributes of the population, constitute both an opportunity and a challenge. But how far a people are daunted or urged by a challenge is a question for which there is no automatic or uniform answer. With the growing integration of the world as a whole the impact of national communities on one another is becoming more and more significant. But even now the effective importance of the factors associated with individual communities cannot be underestimated. Especially in the rural and agricultural sector the tendency of individual communities to lean back on their own tradition and custom is very powerful, and hence the similarities between urban and industrial patterns of life which one often comes across among the nations of the world are usually lacking when one studies the patterns of rural life in these very communities. There is a distinct individuality in the agrarian pattern of life in each country, which persists even in the extent and pattern of their changefulness and growth.

Revolutions and farmers have been closely linked with one another by a certain school of historical critics. For instance, it has been said that revolutions as distant from one another as the French Revolution of 1789, and the Cuban Revolution of 1959, had a strong resemblance in respect of the basic urge of frustrated rural populations to find a better place for themselves in a new society. This contention is not without some justification inasmuch as in major social upheavals in a predominantly agricultural community frustrations and urges of the rural masses play a crucial role. On the other hand in stagnant agrarian communities the rural masses tend to be a passive and purposeless

lot. Unless the idea and possibility of transformation and progress are incorporated into a movement of radical growth, the active participation of the mass of the people, rural and urban, cannot be counted on. All revolutions aim at bringing about a rapid change in the custodians of effective social power from those who are a part of the older regime and are its principal beneficiaries to those who are the protagonists of the new order. Among the protagonists of the new order may be included certain ideological or patriotic elements whose interests are not directly affected by the new order. But the mass which supports the revolution has to be "sold" not only on the declared purposes of the revolution, but also on the practical and material results which it will bring in their life and work. The new order is in a manner of speaking an outcome of the old, in respect of the counter-structure of ideas as well as of practices which it seeks to establish. While in a broad sense a theory and a pattern of agrarian revolutions can be formulated with some justification, in each case of revolutionary change the peculiar complex of ideas and of historical conditions play a more significant part. No two cases of agrarian revolution can be said to be of a "type".

The French Revolution (1789) and the recent Cuban upheaval (1959) have more things which are special characteristics of each, than those which they share between themselves. True, the heavy burdens imposed on the rural population generally, and on the cultivating classes in particular, constituted the accumulation of social evil against which the wrath of the French people could be easily roused. And still, it is surprising how little the common mass cared for changing the economic or social system as a whole. Neither monarchy, nor private land-ownership, were by themselves adjudged as insupportable by the rank and file of the people, who were keen on having their specific grievances removed. The grievances had accumulated so long, and the rural people had become so despondent and frustrated about them that they did not care what alternative "power" or "order" was invoked to secure relief. A mood of frustrated desperation is hardly a positive force on which to build a stable substitution. As is well-known, even among the sophisticated leaders of the French Revolution there was no consensus as regards an understanding about the past, or as regards the lines of reorganization of the future. In spite of the unchecked course of events by which the Revolution was accompanied, it could not last, and in fact it gave rise to an Empire in place of a Monarchy. That the newer administrations were more purposive, though equally ruthless, was an incidental advantage of an outstanding leadership, which cannot be identified as a pattern of change which may with reason be universalized. The common people supported stability and glory, more out of the age-long traits of social conservatism and national pride than out of any humanitarian or universalist considerations. Though the peasants played by no means inconsiderable part in determining the incidents of the French Revolution, it would not be quite convincing to read in the declared slogan, "Equality, liberty and fraternity", anything more than the philosophical postulates of the thinkers and the broad emotional urges for free association among the people. Private property and statism were far more firmly established in France after the Revolution than before it.

The philosophical impact of the French Revolution has been much more abiding than the physical or practical one. Even in the ideological context it is the broad humanism of the intellectual, emotional and moral urges behind the movement which are a more lasting contribution of the popular upheaval than any constructive or analytical

doctrine. The French Revolution lacked the essential character of a social revolution because it had no content of rapid technological transformation. The techniques of production, the needs of investment, the impact of a growing market, the call on new types of skills — these essential requirements of basic social transformation were not met, and hence what the French Revolution gave to France was not a new society built on a new set of desirable occupational relationships among the people, but only an alternative form of a national state which organized the people for prosperity and power. By comparison, the Industrial Revolution, which was contemporaneously taking place in England, was a more fundamental and far-reaching occurrence. The forms of production in agriculture as well as in industry, were becoming more rationalized and more capital intensive. The older land-system, and the system of closed industrial guilds, were obstacles in the way of the new farming and the new industry rising to their optimum heights. Hence the whole structure of society came under a challenge and an industrial revolution brought about not only economic but also widespread social changes.

The Cuban upheaval to which reference is occasionally made in this context is yet in the process. But here obviously is much more evidence of a technological motivation than in the case of France. The Cuban economy is predominantly agricultural, and export economy. Both because of this double unbalance and also on account of the power which foreign investors wielded over the pre-revolutionary government, it appeared that a basic change in the economy which would make it more industrial, more home-oriented and more national would facilitate a fuller and more balanced utilization of resources. Perhaps no technological changes in the narrower sense are involved. But the transformation of the economy by adopting advanced forms of production, in industry as well as in agriculture, is obviously one of the major objectives of the revolution. That the frustrations of the mass of the agriculturally employed labour created the pressure for change is in itself a primarily social factor. If the upheaval is to end in a stable order in keeping with the essential urges behind it, it will have to justify itself by its technological and economic achievements.

An Agrarian Revolution, as an accompaniment of, if not as a prelude to, the Industrial Revolution has a special significance in the technological context. It is normal for most societies to have a predominantly agricultural population before industrial transformation. If such a society is to be transformed into a progressive community elements of a more forward-looking behaviour have to be established in the agricultural structure. Whether a forward technological move is made also in the non-agricultural sectors, and whether such change ante-dates or accompanies the other is a matter of local variation. Experience of industrial revolutions in communist as well as non-communist countries, however, proves that unless in technology and organization the agricultural sector matches the non-agricultural the progress and stability of the economy as a whole are apt to suffer. It cannot be said that the moral of this experience has been taken to heart by economic planners and reformers in the developing economies. As a broad generalization it can be stated that whereas in the industrial sphere social and distributive aspects have been subordinated to the economic and technological ones, in agriculture the social and distributive aspects have generally been allowed to overshadow those of technology and of economic efficiency. In the predominantly agricultural and over-populated economies the resultant effect has been most unhelpful to the strengthen-

ing of the forces of revolutionary change. The end purpose of progressive transformation, namely an all-round betterment in productivity as well as in levels of living, has been frustrated where a social transformation was not accompanied by a powerful technological one as well.

The status relationships of a static economy are obviously under a challenge when new forces of productive techniques seek to assert themselves. Changes in the former may have social justifications as well, but their eventual benefit has to flow from the realization of material benefit. Whereas in the sphere of industry, there is a comparative void which may be filled by a few striking achievements either in the public or in the private sectors, in agriculture any change which is to strike at the very basis of the structure, and to change its whole character must reach the major part of agricultural industry. With the per head and per enterprise productivity on the increase, conditions are created which sustain a higher level of living. When these initial changes have reached the developed stage of producing real surplus and of its self-sustaining growth the purpose of the whole process of transformation is complete. It is not necessary in this context to hark back to the well-established proposition that in an essentially agricultural economy, even maximum and sustained industrial progress would be unattainable in the absence of the supporting elements of ample agricultural supply and an expanding agricultural market. While developing states have as a rule attended to problems of land reform and agricultural development in a sectional manner, almost nowhere has a radical and comprehensive change in the agrarian economy been treated as a basis for the overall task of national planning.

Most of the developing economies concentrate a large part of their attention on promoting industries to the comparative neglect of agriculture. In a plan perspective ranging over a period of twenty to twenty-five years a balance among all sectors of the economy has no doubt to be attained as the end result. Foundations of balanced industrialization have to be laid well in time, and further steps have to be suitably timed. But the character of agricultural industry as foundation of this process must be firmly grasped, not only as a profession of faith, but as a constituent of a plan of development. If we take the example of two developing countries which are making a systematic attempt to reorganize their economies the implications of this argument would be clearer. In the several Indian Five-Year Plans agriculture has been granted an important place, but by no means such an important place as markedly to change the character of the rural economy as a whole. Agriculture even during the Third Five-Year Plan continues mainly to be subsistence farming. Capital inputs have not attained either the size or the coverage which are essential for the adoption of progressive patterns of land use. Agricultural unemployment is steadily on the increase. The result of these drawbacks is written over the whole plan record. Not only is food in chronic short supply, but the agricultural raw materials of most industries are also meagre. While it is universally recognized that there is great scope for the improvement of yields, average rates of production are still among the lowest in the world. By means of built-in pressure at all levels industrial labour is obtaining for itself more and more favourable terms of a wage-bargain and of a recognized status as a partner. By contrast not only is employment in agriculture lagging far behind the needs of jobseekers, but the terms of employment also leave much to be desired. A market-oriented, capital-intensive and socially institutionalized agriculture is an absolute precondition of the success of Indian planning.

This truth is partially recognized, but its acceptance is not adequately reflected either in the size or in the pattern of programmes of agricultural development. The overall performance of the Second Five-Year Plan was rated as less satisfactory than that of the first. The shortfalls were greater in the agricultural than in the non-agricultural sector. And yet, emphasis in the Third Plan on the three essential features of growth, namely, market, capital input and appropriate institutionalization, is nothing like what it will have to be if agriculture is to be a strong, and not a weak, limb of the national economy.

Among developing economies Egypt represents a somewhat special type. By reason of the basic features of its physical conditions, Egypt has perforce to remain largely an agricultural country. Recent steps towards industrialization will no doubt reduce the dependence of national economy on the single source of agriculture, which, however, will remain the mainstay. Egyptian planners have always been aware of this feature, and there has been a general readiness to adopt advanced methods of tillage and some measure of crop-planning. The feudal system of land-holding was abolished by the post-Revolution Government in 1952 by a land decree which compulsorily acquired all land in holdings above 200 feddans. This surplus was distributed among small farmers, many of whom were former tenants or labourers on the same estates. To enable the new holders to pursue a progressive form of tillage they were formed into co-operatives rendering all technical services and essential supplies to their members who, for the most part, continued to farm their fields with their own labour. In a few places, closer integration among small holders has been attained for the purpose of consolidation, common crop plan, and at least some common operations of tillage. Recently, the ceiling on landholding has been reduced further to 100 feddans, and the Government has fully backed, with money and personnel, the special cooperative agencies set up for the purpose of efficient reorganization of the agricultural industry after land reform. The good effects on increasing productivity of agriculture produced by this more equalitarian and progressive policy are widely acknowledged, and it is confidently expected that after the completion of the Aswan High Dam scheme, when large areas will be available for intensive cultivation, the adoption of similar practices and institutionalization will further add to efficient agricultural employment and production. Taking the existing and prospective population trends of Egypt into account, it would appear that, besides maximum industrialization, a fuller and more integrated utilization of basic agricultural resources would be necessary. While the imposition of ceilings and redistribution of recovered lands have provided secure status to many more agricultural operators than was the case before, it still remains true that as tenants or servants of smaller owners a very large number of people continue to be employed on land either without effective security of holding or without adequate means of efficient cultivation. Plans of economic progress now being considered by Government will have to make a more purposeful and adequate provision for offering these opportunities to all those who for a long time must live by agriculture.

Inasmuch as adoption of progressive technology in agriculture involves the investment of capital, both fixed and working capital, the availability of such capital on the one hand, and the prospect of profitably recovering the same out of the proceeds of the output on the other are most vital in the process of growth. Physical inputs, financial resources, organizational aids, and marketing services are all needed to make agricultural progress a reality. The Egyptian model of land reform showed an ideological aware-

ness of all these requirements. The principal crop in which Egypt was interested was cotton, which for the most part had a foreign market. Hence the question of balancing the interests of buyers and sellers did not arise in an acute form. No doubt, the Egyptian Government had adopted a deliberate policy of promoting production of foodgrains by prescribing a minimum acreage of wheat, and a maximum of cotton. There was, however, no emphasis on a policy of having a price-parity between the two crops, wheat and cotton, the presumption being largely that growing at least a minimum quantity of foodgrains was a national duty, whereas growing of cotton was the principal "business" of a farmer. The relatively feeble pull of a market for wheat, and to a certain extent for other foodgrains has weakened the process of technological transformation of Egyptian agriculture as a whole. To that extent, it has also held back the full-blooded process of an economic revolution which the country badly needs.

In other countries, such as India, where agriculture for the most part is producing goods for the internal market, there is almost a continuous secular bias in favour of low agricultural prices presumably in the interests of the general consumer and the industrial producers. In a regime of *laissez faire* a balance ultimately tends to establish itself between prices of industrial products, consumed by a predominantly agricultural clientele, and of the products of agriculture which manage to reach the market. More often than not, the depressing effect of low agricultural prices is seen in the shape of non-marketed produce consumed at home, or of reluctance to produce to a maximum. When, however, a developing policy towards national economy is adopted by a hitherto backward economy, the failure to ensure for agriculture its just terms of trade in relation to the other branches of the economy acts as a deterrent to agricultural progress, and through it to the progress of economy as a whole. Almost all economies, which have in recent years tried by concerted action to attain a high degree of economic progress at the fastest possible rate, have condemned their agricultural industry to a position of relative depression. In economies which seek to operate without an open market, by the process of direct allocation of supplies and surpluses, the stresses and strains are witnessed in the form of periodic shortages, and of the generally unstable condition of agriculture and of those who are employed in it. But in such economies, at least in the theory of the law by which they live, the claims of all who participate willingly and to the best of their capacity in the functioning of the national plan rank, or ought to rank, equally in respect of getting a share out of the national product.

There is a two-fold need of particularizing and emphasizing incentives in agricultural production. The most direct relationship exists in respect of comparative earnings of agriculturally employed labour and other services. If such employment brings to the employed factors a return markedly lower than that obtained by similar investment in non-agricultural pursuits, quite naturally the quality and intensity of those services are also bound to lose by comparison with what may be considered to be the optimum, or even the average, in all the relevant circumstances of the economy. A far more intrinsic characteristic of agriculture, which has eluded even more reformists than have been misled by overlooking the income-parity incentive, is its variable, improvised and essentially biological process of growth and decay. However one may try, not all agriculture, not even the most part of it, can be reduced to the mechanical routine of a mine or a factory. Even fisheries fare better in this respect than agriculture, where the operating individual has, in a manner of speaking, almost to identify himself with the life process

of the plant. Where seasonal factors are thrown in, and such essential services as water are not under control, the need for a continuous consideration for the crop on the part of the grower is almost a *sine qua non* of efficient agriculture. To ensure this continuous devotion what is needed is something more than income parity, though it continues to be important. More vital is the question of the status of the worker in relation to land and its produce obtained with the labour of the worker. Systems of land holding, whether of private or of public ownership, which overlook this aspect of the relationship of agricultural labour to land have on the whole proved disappointing in their social, as well as economical results.

Both extremes, individual ownership, large and small, and state-owned plantations have shown doubtful results. The evils of latifundia are well-known. Equally obvious are the miserable consequences of minifundia, that is a regime of small, mostly uneconomic farms, cultivated by farmers who lack adequate resources to make a success of their farms. By and large, and over a continuous period, state farms have also failed to evoke among the workers that sense of devotion and professional contentment which is necessary for flourishing agriculture. There are a few exceptions to this general observation. These consist of plantation type of cultivation conducted under secure conditions of natural as well as other resources. An ideal type, that of substantial farms, possessing land and equipment of an optimum size, has often been desired as a goal of social policy. With population pressures at high pitch it has been impossible for most developing countries to ensure even an approach to this ideal. Access to land tends to be an increasingly scarce monopoly, and hence to sell this right to landless agricultural workers tends to be more profitable to the owners than the actual cultivation of land. Especially, in the context of technological growth the concept of an optimum or economical size of holding is becoming an over-changing one. Whatever merits a regime of peasant-farming had in comparatively static and relatively underpopulated countries, it has no prospect of beneficent use in a scheme of planned economic growth of a community which shows obvious signs of overpopulation. Some form of institutionalized farming which maintains the two essential incentives, that of income-parity with the rest of the community, and that of direct dependence of income on both quality and quantity of effort is obviously called for.

Some form of cooperative action in which overall conditions of a fair deal to the farmer both in regard to access to means of production and in regard to the relative income levels reached by him by doing comparable labour is called for. In a socialist society this may have to emerge by a deliberate act of decentralization and at least semi-competitive access to means of production, as has been attempted in Poland. But in an economy which generally recognizes the legitimacy of private possession and use of land and other means of production, institutionalized cooperation will have to be more systematically promoted. Egypt, Sudan, Israel and India offer different forms in which the maximum cooperativization needed by the implications of prevailing technology and the state of the market is sought to be brought about without weakening initiative and enterprise below the level at which it ceases to have any influence on the farmer's continued interest in the fruits of his labour. No solution which will fit all circumstances at all time can be hoped for in this respect. On the one hand, the prevailing character of the society, socialist, individualist or mixed, will make a difference. On the other, the extent to which joint action is called for will decide the form of such action. Planning,

servicing, cultivation labour, marketing are different aspects connected with farming in respect of which different degrees of joint action may be needed in view of prevailing physical and economic conditions. A social policy of constant adaptation will have to be followed in these respects.

In fact the whole process of the reorganization of the economy as accompaniment of social and economic growth is very much conditioned by historical and physical features. Even within one and the same country, such as India, there may be a pre-reform stage of non-functioning, absentee, rent-collecting land-owners prevailing alongside of another in which owner cultivation of all sizes of farms is the prevailing pattern. Along with both these, there would be medium or even small sized landowners who normally rent out their lands with varying degrees of participation in the responsibilities of cultivation. In an overpopulated and predominantly agricultural country tenant or agricultural labour status may be generally characterized as liable to exploitation. Suitable action to improve the situation of these classes has been taken in several countries through appropriate agrarian legislation. The effort, however, to remodel the whole of this historically inherited structure on a single pattern would prove indefensible in principle and unworkable or unprofitable in practice. While in societies undergoing evolutionary change in their institutions a rigid imposition of a single model is thus ruled out, some principles of reorganization have to be followed if maximum economic benefit is to be reached and social justice is to be promoted. The abolition, and the prevention of any prospect of re-emergence, of a non-functioning rent-receiver class must be placed at the very head of such principles. The ensuring of the maximum productivity per man and per acre is almost equally important. As one Egyptian land-reformer said, unproductive agriculture is even a worse enemy of the agricultural worker than the landlord.

That President Cardenas of Mexico should have thought of abolishing the Latifundia Ejidoes, which were neither efficient productively nor just socially, was historically a necessary and beneficent act. It was equally natural that he should seek to replace plantations owned by landlords and administered by paid managers by a system of cooperatively owned and managed Ejidoes. The relative inexperience of the average worker on a Mexican plantation as an enterpriser or manager, however, made him peculiarly unsuited to function as an active and efficient member of a democratically organized farming cooperative. To add to the drawback of limited capacity of an Ejido member, the Mexican state also initially lacked both the policy and the organization and resources needed to create and operate an efficient system of agricultural extension, credit, and marketing. These essential services were only gradually developed. Wherever they operate, and where other conditions such as assured water supply and market demand are available, the reform has been followed by increasing productivity and better distribution of incomes. But there are a number of places in which for the lack of these advantages, land reform has only created the greater evil of disorganized, small-scale and inefficient agriculture. Continued efforts are being made to overcome these difficulties, and it may be hoped that with the progress of these measures greater agricultural progress will take place.

Mexico, in common with most other developing countries, also illustrates the truth of the aphorism that the cure of agricultural backwardness lies as much in the field of industry as in that of agriculture. For heavily populated countries, with limited agricul-

tural resources diversion of population to non-agricultural occupations is a *sine qua non*. With the best efforts at land and agrarian reform the increase in per worker productivity will show only a limited improvement so long as the total population employed in agriculture is much in excess of what is needed to make the most productive use of available agricultural resources, including technological advance. The prospects of industrialization are not the same in every country nor is the state of available overall resources for the total task of economic transformation equally propitious everywhere. Even if we were to exclude the accumulated weight of habit and tradition, it cannot be denied that the rate at which enterprise, industry, managerial skill and a general flair for farming and running modernized institutions develop among the people is not the same in every country. Available assistance from foreign sources is changing the situation for the better in several respects. But internationally, even more so than internally for each nation, the speed and level of lasting progress depend more on intrinsic, or owned potentialities of individuals and peoples than on external aid, or even physical and environmental factors.

Many are the schemes of so-called land-reform which have become fruitless as the result of incomplete understanding of this fundamental and comprehensive character of the process of socio-economic growth generally, and of agrarian development as a basic feature of the same. The temptation to adopt legislative or revolutionary steps for compulsory acquisition and later re-allotment of land, without ensuring at the same time appropriate action in all the other concerned spheres has been too strong for most governments. There is hardly any exception to this statement so far as the developing economies are concerned. While some parts, like the acquisition of land, are fairly well executed in most cases, distribution among eligible claimants, and the equipment of these latter with the means of efficient cultivation leave much to be desired. In evolutionary and peaceful schemes of land reform the process of forming an opinion and shaping a law are so slow, and often so tortuous, that the very interests which it is intended to suppress, find it easy to forestall legal processes or to influence them in their own favour. This has happened on a large scale in several parts of India. Ceiling on land-holding, restrictions on transfer, regulations of tenancies have all been largely counteracted by unilateral or collusive action on the part of erstwhile landlords. In these cases it is only the future course of events which can be said to be liable to reformist action. Where the beneficiaries are drawn from the class of agricultural labourers, and sometimes from among persons who have no previous experience of agriculture, they are too insufficiently equipped and interested to contribute to either their own or to the nation's development. In regions as wide apart as Latin America and South Asia this has happened.

Not infrequently, the machinery of law enforcement is so tardy and inefficient,—and at least in a few cases, so little interested in the success of measures of land reform—that benefits created by law are too inadequately conveyed to intended receivers. In developing countries where the new settlers or holders are themselves too weak to enforce even a legal claim, unless social machinery which would ensure enforcement of law is created land reform remains more as an ornament of the book of laws, than a real experience in the countryside. To compare land legislation with factory legislation, it will be seen that whereas inspection and adjudication are normal public functions in regard to the latter, the former is mostly dependent on the new farmers' own initiative to secure

a redress. Actually, small persons in rural areas are even less organized and less informed than their compeers in urban areas. Both for pre-reform education and for post-reform enforcement and follow-up much more vigorous and positive action than has hitherto been taken is obviously called for.

There is a widespread and somewhat discouraging feature about land reform which needs special notice in the context of agricultural and economic development. Whether ideologically it is justified or not, in practice it is found very expedient to rush land legislation on a wave of public resentment against the class of landlords. A comprehensive, historical and developmental pattern for the community as a whole is rarely presented or acted on. Even if it is presented, as by Cardenas in Mexico, the part which is aimed at dispossessing a socially obnoxious class is carried out, to the virtual exclusion, or at least delay, of other supporting measures within the agricultural economy, and also in the rest of the nation's life. Egypt is trying to follow up its decade old measures of land reform by this type of supporting action, and the scope of land reform measures is itself being extended as mentioned earlier. But not even in Egypt can it be said that the principles of a ceiling on private holding of a scarce means of production, of compulsory cooperativization and of a socially adjusted scheme of sharing of produce have been made effective over the entire national, or even the whole of the agricultural economy. Any such truncated stage of reform leaves the so-called reformed section in a state of invidious isolation, and as a rule without any inherent trend towards self-improvement. Indian planners have on paper schemes which appear to be based on comprehensive principles, but the actual formulation of plans and their adoption for present execution is no less lop-sided in India than anywhere else. Growth and development in the economic sphere, and equality and cooperation in the social sphere, are concepts which must be taken as a whole, and their adoption must be balanced and vigorous.

In this connection it is worthwhile to analyse the concept of community development about which much is heard nowadays, especially in the rural parts of developing countries. Building up a sense of social solidarity and self-help among members of communities, large and small, is the obvious purpose of this movement. By itself it should help to build a society which has strong elements in favour of stability and local sufficiency. Many nations struggling with the problems of post-independence restlessness among their people would welcome the success of such campaigns. If, however, emphasis on solidarity and self-help were to dull the edge of a vigorous campaign for promoting social justice with the whole resource of the state the movement would tend to be an ally more of reaction than of progress. Especially in the sphere of land reform where vested interests, inherited ideas and institutional bulwarks of the old order have to be purposefully, and almost ruthlessly, changed community development professing to concentrate on objects of common interest with maximum voluntary contribution from all classes of people, may well act as almost a counterforce to a movement which deliberately and specifically has to curtail the privileges of the few and to augment the advantages of the many. Speaking for India it may be stated with justification that the separation of land reform from community development has resulted in producing a very limited success for both. On the contrary, if the comprehensive justification of land reform as an instrument of constructive development of the country as a whole is clearly brought out, and it is made a plank of the educative campaign accompanying community development the constructive and abiding advantages of both the programmes would be

more assuredly reached. Community development cannot hope to avoid conflict of ideas and interest. It must rationalize it, and sublimate the inherent decrees of sections to vindicate their interests against others into a strong common desire to promote the development of all. Rethinking and replanning along these lines is urgently needed in most developing countries. Even economic reform depends not only on technology and physical resources, but even more fundamentally on the quality of human endeavour, individually and collectively. It is true to say that efficiency of joint effort is promoted as much by literacy as by a recognition of the principles of social justice.

The virtue of a programme of reorganization must be sought both on the side of justice and development. One without the other can have no claim on the support of a democratic welfare state. Where there is a definite prospect of the two being realized together the state ought to go all out to ensure the success of such a programme. An illustration from recent Indian experience is well worth a mention. In several parts of the country where irrigational facilities were available and land holdings were modest it used to be common for the cultivators to raise food crops and, occasionally, a little sugarcane for being manufactured into raw, or unrefined, sugar by the traditional method. This form of utilization of land and water was far from being the most economical or profitable one from the standpoint of the individual and the state. But as the growers individually lacked the capital resources and enterprise to make any more ambitious use the pattern had continued for a long number of years. Recently under the Five-Year Plans of the country, when a target of increased sugar production was set, a very critical decision in socio-economic policy was taken. Economically it was held that further production of sugar should mainly come from regions in which physical conditions were most favourable for economical working. These areas happened mostly to be the ones in which ownership of individual farms was widely dispersed. If the old policy, which had prevailed under the British rulers of India had been continued, one or more of the several capitalist manufacturers would have been given a licence to set up refining factories.

For the government of the country this would probably have been most convenient as their responsibility for direct assistance would have been limited to a minimum. From the standpoint of the grower this would have been a doubtful boon, as almost all the advantages of an expanding market would have been secured by the monopolist factory-owners. There would have been no assurance that the maximum incentive for improved cultivation of land would come into play. The policy of democratic planning in a welfare state, often described by Indian leaders as a socialistic pattern of society, suggested the adoption of a plan of state assisted cooperative sugar factories, of which the cane-growers were primary members. Much doubt was initially entertained as to whether in terms of efficiency of cultivation as well as of factory and business management this course would produce the best results. In actual fact the disappointments in this part of the plan have been less than those in any other part. In fact, in one of the states of the Indian Union, even farms which were in possession of capitalist factories have recently been brought under the law of maximum ceilings and therefore they would now be formed into state, or state-cum-cooperative farms as per models which have already proved successful. There is no rigid uniformity about patterns of development in a democratic and equalitarian state. Nor can one and the same pattern serve for all time. To promote maximum welfare for all by promoting maximum productivity among them in an

atmosphere of freedom and equality is, or ought to be, the object of all developmental planning. This is true of all planning, but especially so of planning for agrarian development in the developing economies.

A review of the fortunes of agrarian reform measures in several countries brings out this truth very vividly. The task of inducing rapid technological transformation in heavily populated developing economies, operating under a democratic form of government, is not a simple, one track, or once and for all endeavour. Cuba is still in the very midst of a social upheaval which faces its main challenge on the problem of transforming a more or less completely plantation economy into an agro-industrial cooperative or socialist state. Problems of large-scale capital investment, mobilization of technological skills and rapid development of appropriate institutions are involved, in which adaptability of attitudes and development of skills are at least as important as the availability of physical resources. In Mexico while on the one hand rapid progress of industrialization is a stimulating factor, the relatively slow pace at which land reform, both in its tenurial and developmental aspects, is forging ahead is resulting in a backlog of rural problems which are pressing urgently on the attention of rulers. Priorities between industrialization and agrarian reform in developing economies are always difficult to adjust, and some unevenness in progress on the two fronts is perhaps unavoidable. In Brazil, while colonization of the well-equipped settlers, especially foreign immigrant groups has received sympathetic support from succeeding governments, the problem of reorganizing the working life and living conditions of the local population in areas of precarious rainfall has not been tackled on the scale on which it needs to be. A regional, and a sectoral, unbalance in the economy of the country is by no means an unusual phenomenon in Latin American countries. The richness of all types of resources in Brazil should make it easier for it to meet the situation more effectively than is possible in most other countries of the region.

Italy, in Southern Europe, has been able to forge ahead with industrial development at a pace which made the solution of the land problem a somewhat easier task than was anticipated only a few years ago. The relief that Italy has obtained through the years in the shape of emigration of a large number of its people is still an important factor. The importation of foreign capital, in some cases, foreign enterprise as well, has also been on a large enough scale to keep up the tempo of industrial progress. While conditions in some regions of the South are still rather depressed, on the whole emphasis appears to have shifted from finding land for the tiller, to finding an efficient tiller for the land. Italian experience may suggest that if by some means population pressures are held in check, and sufficiently large accession of external resources, which can be absorbed by the local system, is made available agricultural as well as industrial transformation can be brought about very quickly. The importance of making enough inputs available on land, and of maintaining sustained incentives for progress among the agriculturally employed population is also, recognized by other developing economies of the region operating under differing patterns of social direction.

Three East Mediterranean countries have much light to throw on the differing conditions, of nature, of resources, and of organization, in which developing nations have to work out their own economic and social transformation from stagnation and traditionalism into a life of almost continuous development and growth. Israel, in regard to the composition of its people, as well as in regard to resources and organization

if for the most part a modern nation set up speedily and energetically in an ancient land, from which most of its former residents had vanished leaving behind them only physical remnants of an older civilization. Some priorities in Israel's economic policy were indicated by its political situation, but most of the others were purposefully adopted by the rulers, and by their advisers. Food production, coupled with rehabilitation of land and training of personnel was given the highest priority. An unprecedented variety of forms of organization was tolerated, from a joint stock company to a communist co-operative, like the Kibbutz. All these were, however, kept very much within the scheme of national objectives and allotment of resources. A preference for the generalized co-operative form of organization has been inherited by the present rulers, but they are far from dogmatic even about this. In the meanwhile, with a rapidity almost unsurpassed in history a predominantly non-agricultural and progressive community has been reared in strength, in which not only is the proportion of population dependent on agriculture steadily going down, but the spectre of food shortage and of inefficient agriculture has been replaced by one of apprehended chronic glut. It is true that Israel has several special features, some of which are too exceptional to be recommended as a type of action to be followed elsewhere. But many are inherently beneficent and deserve to be adopted with discriminating determination.

Egypt has already been referred to as an example of a country which has not allowed its enthusiasm of legislative land reform to get the better of its insistence on obtaining the last ounce of return from its productive efforts. It has also refused to be beguiled by specious arguments of voluntarism into accepting an anaemic structure of cooperative organization. Side by side with these traits which deserve wide acceptance among developing countries is the comparative disregard of the value of popular initiative and participation in decision-making. Probably, first things first, is an addage which is being deliberately followed in this, as in some other respects. Social engineering, even in revolutionary regimes, is a somewhat unique adventure and calculated risks have to be taken by the wisest among them. With greater adequacy of resources, and a further fillip both to agricultural and industrial development, a more balanced and sustained rate of growth may, perhaps, be possible.

In Sudan the Gezira is an oasis in more senses than one. Its main contributions to the thought and practice on agrarian development in comparatively backward economies are two. Once it was seen that agricultural development of a region was feasible and necessary, and that it could be brought about only by large scale investment of capital and talent which was much beyond the joint and several capacities of the existing owners of land in that region, a bold contractual decision was taken by government. Long-term leases, liable to renewal at the option of government, were entered into on a compulsory basis with existing owners, who were given what on the basis of contemporary opportunities were very favourable terms. In principle, the right of existing owners to a prior lease of a unit for self-cultivation was recognized. Thus the emergence of rental earnings on a large-scale was avoided, and no immediate financial problem of payment of compensation was allowed to arise. On the other hand, technological efficiency and economical profitability were insisted on to the point of welcoming a foreign commercial corporation to be the agency for planning, financing and directing the whole enterprise. More recently, after the lapse of the lease of this foreign corporation, its functions have been taken over by a public corporation set up by the independent government of Sudan.

This has almost completely transformed what was intended primarily to be a cooperative effort of small independent cultivators guided and assisted by an expert corporation into a big state enterprise.

The Gezira model has been followed in several other parts of Sudan in respect of ensuring collaboration of workers with tenant-status on terms of sharing in the net product. There is little doubt but that without these steps in Gezira, and all along the water streams, the agricultural resources of the country could not have been developed as fast as they were. The exceptional circumstance of a foreign enterprise accepting responsibility for results and claiming a substantial share of profits has now vanished. But the denial of the worker's right to participate in decision-making, and the almost irrepressible tendency for the emergence of "rent receiving" interests at all stages and in different forms continue to be obstacles in the way of major transformation of society into modernity.

At both ends of the nation are large areas sparsely occupied by tribal people, the Azandi in Equatoria in the South and the Hadendawas in Gash delta in the North, for whom economic transformation is only one phase of a whole pattern of cultural progress which has to be attained in a couple of decades. Only on a world-scale of assistance and responsibility can these problems be met.

Among Asian countries Japan occupies a special position of advantage in that it is not a developing but a fully developed economy. Agricultural development is only part of total economic development of the country which, uniquely among Asian countries, is at a full employment level. It is probable that those who emphasized the small holding aspect of land reform after the Second World War had not taken into account the implications of disparate earnings in agriculture and industry. While the standards of per acre productivity have remained high, those of per worker productivity have not improved at anything like the rate at which progress has taken place in industry. Within the ten years of what was described as a revolutionary measure almost a consensus has emerged as to the view that the scale of agricultural operations must be such as to provide full time employment for those who are engaged in it. The choice of organization among state farm, cooperative farm and private farm is a matter of current debate.

By and large, in most other countries of Asia, almost all of them groaning under the burden of heavy population, effective land reform has been confined largely to limiting and distributing land-holdings. Even consolidation movements have made very limited progress, and the task of major and habitual transformation of techniques of tillage and farm management has been indifferently attended to. An overall shortage of material and organizational resources, coupled with a mental preoccupation with modern industrialization have kept down the tempo of agricultural development, both absolutely and relatively to the other sectors of the economy. Available foreign resources are either used in a few central places, or are frittered away over large areas, leaving the general picture without much change. But what has been achieved in a few places, is stimulating both the ambitions and the demands of agricultural populations. It is no exaggeration, however, to say that not a single developing country is prepared to act on the conviction that for a long time to come the measure of its development, in respect of employment productivity and income, will be its attainments in the field of agriculture. This is a pity, as there is no justification, either of ignorance or of inability, for persistence in this shortsighted policy.

Plans of Agricultural Development in India

WITH respect to employment and also to proportionate contribution to the national income, agriculture has always been the single most important economic activity in India. Till recently, however, agriculture was largely conducted as a means of raising subsistence crops, and the approach of the farmer towards his cultivating practices was more that of a way of life than that of a business. Under the impact of a broadening market and of a general industrialization of the country, agriculture is being drawn increasingly within the orbit of competitive forces of investment and profits. Since the introduction of a policy of planned development in 1951 agriculture has come to occupy an important place in the pattern of economic growth. For the supply of food and industrial raw materials — a rapidly increasing demand for both is forecast — as also for eventually supplying a surplus of net income which may help to finance non-agricultural development, great reliance is being placed on programmes of agricultural development included in the Five-Year Plans of the country.

FIRST PLAN PERIOD

The First Five-Year Plan, 1951-56, was mainly concerned with repairing the damage caused to the agrarian economy by World War II, and by the partition of the country. Some of the tasks that had first to be attended to were resettlement of displaced families, reconditioning of irrigation systems, and replenishing exhausted stocks. But over the whole country a vigorous movement intended ultimately to initiate a major technological as well as social transformation was set in motion. In providing the economic and organizational base to the Five-Year Plans, the community development and national extension service were mainly concerned with bringing about a vigorous transformation of rural society. About 15 per cent of the total public outlay of the First Plan was devoted to agriculture, community development, and cooperation. A large part of the benefit of the major hydro-electric schemes (for which over 16 per cent of plan funds were being used) accrued to agriculture by way of irrigation facilities. The full benefit of all these measures could be expected to flow only in the course of time. But even by the end of the First Plan period (1955-56) agricultural production had increased by 17 per cent over the basic year 1949-50.

Journal of Farm Economics, 43. (December 1961), pp. 1081-87.

SECOND PLAN PERIOD

During the Second Plan period, 1956-61, more funds were provided for agriculture and community development, Rs. 568 crores (1 crore=10 million), as against Rs. 357 crores in the First Plan. The proportionate share out of the total plan funds represented by this amount, about 12 per cent was, however, smaller than in the First Plan. Industries, mining, and transport claimed a higher share. In part, these constituted both added demand and support for agriculture. As a result, by the end of 1958-59, the agricultural production index had increased to 132, foodgrain production for the year being 75.5 million tons. The production of foodgrains during 1960-61 is expected to range between 76 and 78 million tons. A recent official announcement has put this figure nearer 80 million tons. This order of progress is significant but not yet very striking as indicating a stage of critical transformation of the rate of increase in productivity in the entire agricultural economy. Incomplete utilization of irrigation potential, shortage of chemical fertilizers and under-utilization of local resources of organic manure, and slow initial progress of seed multiplication farms were some of the shortcomings in policy and organization which came to notice as the Plan advanced. The Third Plan seeks to benefit from these lessons of experience.

THIRD FIVE-YEAR PLAN

Objective: The increasing demands made on agriculture by growth of population and urbanization, as well as by the further stages of industrialization of the economy, have to be more satisfactorily met. Food self-sufficiency and fuller agricultural employment continue to be major objectives. In perspective, the broad outlines of plan policy are that by the end of the 5th Plan period, or at least the 6th, the per capita income of the agricultural population should be doubled. It is intended that agricultural production should show a steadily increasing rate so that by the year 1975-76, that is, by the end of the 5th Plan the index may touch 300, as against 117 in 1955-56, 132 in 1958-59, and about 135 in 1960-61. Corresponding increases in consumption are indicated by an increase in per capita consumption of milk by adults from 4.5 ounces to 10 ounces, and of cereals from 2,000 calories to 2,600 calories. The farmers' own organizations are to be helped to maximise their efforts so as to reach these overall objectives.

Targets: It is natural to expect that with diversification of farming and with the general rise in the standards of living, the cereal component of the food needs of the country will diminish. But for the Third Five-Year Plan period, 1961-66, it is estimated that the needs of the population will amount to an approximate figure of 100 million tons to be reached by the year 1965-66. If this end is achieved, imports of foodgrains in normal years would not be necessary. During the First Plan period agricultural production increased at the rate of 2.8 per cent a year. The corresponding rate estimated for the Second Plan period is 3.1 per cent, and if the targets mentioned above are to be reached it will have to hit about 6 per cent in the Third Plan period. Besides food grains, other important crops are sugarcane, oil seeds, cotton, and jute. In respect of these crops and a number of other minor cash crops, increases in production by the end of the Third Plan are intended to meet the requirements of industry and exports. It is realized that to attain these results, besides a general improvement in productive organization, intensive efforts in areas of high potential are called for. Pilot districts, one in

each State, have been chosen for the introduction of a package programme of all-out augmentation of necessary inputs, including organizational effort. The results of these pilot programmes will be important both in themselves, and as models to be multiplied in later plans.

PROGRAMME OF ACTION

Land Use: While a more intensive survey of the land now classified as wasteland may yield some addition to net area sown, it is broadly agreed that there is little scope for increasing the area under cultivation and the most hopeful way to increase production is to raise the per acre yield. If we take into account population increase, it will be seen that the net area sown per head, which was .81 acre in 1951, was reduced to .75 acre in 1960-61, and is expected to be reduced further to .68 acre in 1965-66. The present methods of cultivation are so primitive in most cases that considerable scope exists for improvement in patterns and practices. The fact that only 14 per cent of the land under cultivation is cropped twice a year indicates the way to making agriculture more of a full-time and a productive job than it is at present. For all aspects of improvement in farm patterns and agricultural practices each village and each individual has to be encouraged to have a plan for the use of land which conforms most satisfactorily to its physical potentialities and to the scheme of investment included in the National Plan.

Irrigation: The key to agricultural progress in India is irrigation, as under natural conditions in most parts of the country cultivation of land tends to remain a single crop, precarious occupation. The major irrigation works which were commenced during the First and the Second Five-Year Plan periods are either completed or in process of completion. Much remains to be done in regard to fuller utilization of resources thus made available. This aspect is already receiving attention and work on it will be intensified during the Third Plan period. Minor irrigation works, which cost less, can be completed earlier, and can utilize local resources to the full, are also being increasingly relied upon. Under the Third Plan, about 13 million acres of additional land are to be irrigated by major and medium works, most of which are already under construction, and another 13 million acres are expected to be served by new minor works, including wells, tanks, and lift irrigation. An appropriate programme of crop planning and watering practices is being worked out by detailed research and trial. Nearly 250 crores of rupees are proposed to be earmarked for minor works. These will be executed and maintained through local councils and cooperatives as far as possible. Progress in irrigation renders other aspects of reform more acceptable and fruitful.

Soil Conservation: The main risk to non-irrigated land as a permanent asset arises out of its liability to erosion. Some major regional schemes of development, including control of streams, are needed to prevent such risks. But in most cases area, village and field bunding and terracing operations are found to be advantageous. Some technical and professional assistance and some capital investment are needed for undertaking these works. The Third Plan made full provision for these through cooperative and governmental sources. Efforts are made to mobilize local labour through community organizations. This will continue during the next five years. About 50 million acres of desert lands have problems of their own, as have the 12 million acres which are marshy. Large-scale schemes of conservation, reclamation, or resettlement often make program-

mes of consolidation of holdings more feasible. Such programmes are already in operation in many States and provisions for strengthening them have been made under the Third Five-Year Plan.

Fertilizers: As important as irrigation and improved seed, if not more so, are fertilizers, as even to maintain the current fertility of soils under cultivation, 785 million tons of bulky organic manures would be needed as against an estimated output of about 310 million tons by the end of the Third Plan. Organic manures and green manures from urban and rural sources are being increasingly tapped. There is an educative as well as an organizational problem involved in augmenting the conservation and use of these fertilizer resources. A programme for doing the needful is included in the Third Plan, and there is reason to believe that with the awakened appreciation for use of local fertilizers among the progressive farmers this programme will attract wider support.

A more specific field of research in combination with all variable factors, and a programme of training adequate extension personnel in the conservation and use of fertilizers are also urgent needs. Since 1951 consumption of nitrogenous fertilizers has increased from about 56,000 tons to 100,000 tons in 1955-56. By 1960-61, the demand rose to over 400,000 tons, but due to inadequacy of internal production and shortage of foreign exchange for imports, availability amounted to only 200,000 tons. It is planned that production of nitrogenous fertilizers will increase to 1 million tons by the end of the Third Plan, and along with about 400,000 tons of phosphates it will substantially meet the more obvious requirements of chemical fertilizers.

Implements: It used to be said that for the conditions in which Indian agriculture is carried on, the implements in use are economically the most suitable. This is no longer true. Animal power is found to be uneconomic and unsuitable for several operations. Improved power is found to be uneconomic and unsuitable for several operations. Improved devices for essential services such as ploughing, sowing and harvesting are in increasing demand. Large-scale mechanization is not considered feasible under present conditions, but the role which selective mechanization can play is receiving attention. Where more than one commercial crop is grown in a year, and the size of the holding is an economical one — as in several parts of the Punjab — already the farmers are going in for light tractors. The practice of cooperative use of tractors and improved implements is not as widespread as may be expected, but the Third Five-Year Plan is, for the first time, bringing into prominence a programme of modernization of implements. Electric motors and oil engines are spreading to the villages, and in both respects the Third Five-Year Plan has quite an impressive though by no means an ambitious programme. Service stations and training of rural personnel in the use and maintenance of improved implements are also planned. Regional research-cum-training centres for bullock-drawn implements are being set up.

Mixed Farming: Along with cultivation of crops, which may be part of a pattern of rotation, farmers are being helped to add other lines to their business, e.g. horticulture, dairying, animal husbandry, and poultry. To make full use of agricultural resources and to add to the net productivity of agriculture all these outlets are being studied. The use of grazing for dairy cattle is coming to be more and more appreciated. Over the Third Five-Year Plan period all towns having a population of more than 100,000 are expected to be covered by organized dairy schemes which will utilize milk cooperatively supplied by farmers in surrounding villages. The pattern will spread in

due course to smaller places as well. The supply of eggs and table poultry and of pigs will be substantially increased. These products of mixed farming are expected to improve the diet of the people and to reduce the dependence on cereals. It is expected that by the end of the Third Five-Year Plan the consumption of milk will increase from about 4.5 ounces to about 6 ounces per adult per day. In itself this appears to be a small aim, but spread over more than 200 million adults it would not be considered beneath notice.

Research and Education: By 1963 it is expected that all villages in the country will be brought within the scope of national extension service. Farmers in all areas will thus be approached by active agents of a programme of agricultural reformation. While the end of the extension process is the advice and service in the field of the farmer, its earlier stages of training village leaders, extension workers, specialists, and researchers have also to be attended to in good time and on the required scale. The Third Five-Year Plan provides for all these so that all the other physical and organizational aids created for the farmer may be appropriately used by him. Besides this regular system of research, training and extension, for every new programme intensive educational campaigns, supported by requisite guidance and supplies are undertaken. In areas selected for intensive agricultural development all these features are employed in full measure. While such areas will be confined for the present to a single district in each State, all districts have the benefit of the constantly improving general extension service. Subject to vagaries of the season, and to the overall paucity of resources, it can be confidently stated that the standards of cultivation and rates of productivity are steadily on the increase everywhere.

Marketing: The disadvantages of the traditional system of marketing agricultural produce through trade-financiers are well known. A determined attempt is being made to replace this agency, as much as possible, through institutionized processors and marketeers. This means largely the regulation of market organization on the one hand, and the setting up of marketing cooperatives on the other. While regulation of markets is proceeding fairly rapidly and the Third Plan provides for further development in the same direction, the setting up of marketing cooperatives is lagging behind. This is due partly to the small size of a rural cooperative and to the relative inexperience of the average cooperator. Largely, however, it is due to failure of cooperative credit agencies to meet all the needs of productive credit and to enforce the discipline of an integrated cooperative organization for credit, processing and sale. In all these respects a more intensive programme of development is planned for the next five years. At the base, it is proposed to attract about 75 per cent of the total agricultural families, i.e. about 40 million into the cooperative fold. To the extent to which all the production needs of this large membership are in fact met, both production and net income in agriculture will show an appreciable increase.

Schemes of Agrarian Reform

AGRICULTURAL STATISTICS

THE subject matter of discussions at the meetings of the Society of Agricultural Statisticians is rightly of a very special importance, both in its methodological and practical aspects. Over the years the work done by Indian Agricultural Statisticians has been attracting considerable attention here and elsewhere. In all parts of the world, and in most of the International Organizations, Indian statisticians are playing a key role in promoting sound methods of study and advice. I am only distantly associated with the advanced techniques of statisticians though in my routine I have to use their handiwork to a considerable extent. In fact it is the etymological significance of statistics, as knowledge about the conditions of the state, which interests me more than the science of statistics.

With the interests of agricultural statisticians I have much more in common as in all my studies of rural economy agricultural statistics are like the proverbial straw without which bricks of useful knowledge cannot be made. We in India are becoming increasingly aware of the fact that the objective of national progress along lines of planned development cannot be said to have been realized unless conditions in the rural areas and in the main industry of the people, namely agriculture, are transformed in keeping with the tenets of the new policy.

This subject of agrarian reform has now become of vital interest from the standpoint of the newly emerging and the developing nations. The scope which agricultural statisticians have in meeting the varied requirements of chalking out a comprehensive programme of agrarian reformation may be revealed by an understanding of the major issues involved in the process. I propose to lay before you a few of the important considerations which are involved in schemes of agrarian reform which are being forged in several parts of the world.

LAND REFORM AND AGRARIAN DEVELOPMENT

Enabling the people on fair and equalitarian terms to participate in efficient processes of production so that their own and the community's welfare may be maximized is the ultimate objective of social policy of which land reform is only a part. Especially

in its more restricted sense of distribution of land among several farmers and protection of tenants land reform is more of an instrument than an object of policy. Reform of tenure has to justify itself by results both in the field of improving productivity and of equitably distributing the product. Alongside of tenurial legislation has to be put the whole institutional programme of agrarian development. Education, extension, production services, cooperative institutions and an opportunity to share in the overall plans of economic development all these together comprise a plan of agrarian reform.

Land reform derives its justification and ultimate advantage in being fully integrated in a programme of national economic development. Wherever land reform has stopped with the passing of a few legal measures it has as a rule not only failed in its declared objective of improving the lot of the intended beneficiaries, but often it has left them in a more exposed situation than the one from which they were sought to be extricated. At least for the developing economies it may be said with confidence that land reform which is not part of a full programme of agrarian reformation has no potentiality for substantial benefit. In respect of the scope of institutional change and in respect of the total resources needed to make a success of the programme full account should be taken of these implications.

ENFORCEMENT

It is common knowledge in India and elsewhere that whenever reliance was placed only on passing laws for tenant protection or for regulating the rights of landholding these laws were rendered ineffective in several ways. In fact in many places they made the position of tenants and small holders even more precarious than before. So long as the small cultivator, tenant or holder, has to depend on the expropriated vested interests and their supporters for the requisites of their trade and even of existence no law which seeks to regulate these interests can be effective. An institutional provision of ancillary services on an adequate scale is an essential accompaniment of land reform. Some countries have gone to the trouble and expense of setting up an enforcement machinery for tenancy legislation similar to that which is usually provided for labour laws. This is good as far as it goes, but unless the tenant and the new holders are put into touch with bona fide sources of essential services even good protection is no more than cold comfort. To borrow from Latin American terminology, even a successful replacement of latifundia by minifundia is socially and economically fruitless.

COOPERATIVE SERVICING

Tenures, including ownership rights, are important but they are important only so far as they help to promote welfare. If at the particular stage of economic development of a country it is desirable to put larger land and other resources into an efficient unit of agricultural enterprise than an average holder can command it is necessary not only to allow but to promote the formation of production units of more optimum size. In developed countries such as the U.S.A., Sweden, and the Netherlands active steps are being taken to facilitate the consolidation of marginal units so as to form bigger enterprises. In all these countries conditions of full employment exist, and those who are pushed out of agriculture are readily absorbed in other occupations. In developing economies there is little scope for such large scale occupational shift. If then a larger unit

of enterprise is to be formed consistently with small units of holding, some form of cooperative enterprise is unavoidable. The extent and manner of cooperative functioning of farm units are largely variable. In fact, a constant process of trial and error is being gone through in this respect in all parts of the world.

Democratization of decision-making, and a more direct correlation of return to effort are the two essential counts in respect of which cooperative and collective farms show an essential difference. The latter are largely centralized in both respects, and hence both for incentive and enterprise they have not yet been able to prove themselves. Genuine cooperative farms, of a really decentralized and democratic pattern, are few and far between. In their very nature, they may not be so easy to operate as to constitute a pattern for common or universal acceptance. But circumstances which are normal to developing economies seeking agrarian reform would reveal many situations in which different forms and degrees of cooperative action among farmers would be seen to be advantageous and feasible. It should be the purpose of social policy to encourage all these in appropriate circumstances.

In Israel, from the almost communist Kibbutzim to a capitalistic joint stock company, all forms of association among farming enterprises are permitted, so long as they help to make the most economical use of resources and to produce a system of distribution which is accepted as socially just. Economic growth which is widely desired is of the type where efficiency and equity are realized on the largest scale.

AGRICULTURE AND SELF-SUSTAINING GROWTH

Much is being heard currently of a take-off stage and of self-sustaining growth. Whatever else these concepts may mean they are fundamentally related to the existence of certain qualities of personnel and to certain features of economic development. A people who in the mass are not stirred by a strong urge to go forward at any cost cannot execute anything like a take-off even if all the physical resources are made available to them from external sources. By training and by the exercise of initiative a people has to develop qualities of progressiveness and enterprise without which no take-off which would mark the end of stagnation and the beginning of a rapid upward move can take place. Needless to say, unless the heavy dependence of population on agriculture is definitely brought to an end, and unless the practice of agriculture is itself undertaken in the spirit of progress and enterprise even the beginnings of a take-off cannot be said to have been made. When we speak of land reform in a developing economy these implications bearing on an overall economic transformation must be prominently taken into account. Land reform has social and economic justification only as part of an overall movement of rapid transformation of the economy.

AGRICULTURAL PRODUCTIVITY

The subject of agricultural development is often approached in a piecemeal fashion. Its importance as one among several occupations is appraised with varying degrees of realism, and it is not unusual to treat of economic progress as largely a process of industrialization. That this latter process is itself dependent on increasing productivity in agriculture is not so readily realized. Especially after land reform a large portion of farm produce tends to be consumed by the farmers' families. On the other hand growing concentration of population in cities raises the demand for marketable surpluses.

Just when the demand is on the rise effective supplies are apt to shrink unless in the meanwhile productivity has increased so fast as to provide for both the augmented home consumption and for the increased demands of the market. This need for higher productivity of food farming is an additional factor, besides the generalized proposition about supply of raw materials to industry. At least a part of the responsibility for the recurring food crisis in many developing countries is attributable to a propensity to treat increased productivity in agriculture with less attention than it deserves. If there is a plan, the full measure of estimated demand must be made available from units of agricultural production which are specifically helped to produce adequate quantities.

Land reform creates a special situation in this respect inasmuch as it tends to create conditions in which productivity may fall and demand may rise unless special attempts are made to ensure higher productivity. Though different countries have attended to this aspect of agrarian planning in varying measure, there is hardly any developing country which has appreciated the full and concentrated significance of increasing agricultural productivity in the two-fold contexts of land reform and planning. Even in India there is no conscious coordination between the situation created in each district by land reform measures and the provision of aids to improved productivity on the farms of beneficiaries of land reform measures. Land reform and agricultural extension, such as they are, have moved almost independently of one another. This has limited the usefulness of both, and has unfavourably influenced the progress of rural economy.

INNOVATIONS AND SOCIAL CHANGE

In old agricultural societies, such as the developing countries generally are, most of the life of the rural people is organized round their principal occupation, which is agriculture. Relationships affecting the possession and use of land influence almost all social relationships. In fact social ranking is almost strictly in proportion to the status and quantitative measure of the landed possessions of the people. As these patterns of relationship have existed for long periods institutions of land holding, farming pattern, supporting services such as credit and marketing have ceased to be treated as merely economic institutions. They affect the whole of the people and, therefore, when a transformation of the system of land holding, or of the credit and marketing structure, are suggested as constituents of a programme of land reform they encounter a widespread resistance which is psychological as well as social. Efforts to promote education and institutional change along desired lines have to be undertaken over a long period to overcome such natural obstacles to progress. This is one of the reasons of the comparatively slow progress of agrarian economy even in countries which have succeeded in a revolutionary transformation of their industry. The special difficulties of agrarian reform in a democratic society, where active consent of the large mass of the people is the only dependable sanction for effective reformation, call for greater patience and greater effort.

INSTITUTIONAL CHANGES

While the process of education, especially of the leader group, can be helped by several types of foreign aid, the actual transformation of the personnel and institutions has to be achieved by the people themselves. Even in the more restricted sphere of legis-

lative changes affecting tenure of land it is common experience that while a few influential leaders can successfully put on the Statute Book a fairly ambitious looking land-reform law, its impact on the minds of the several affected sections, and on the actual business prospects of the cultivator are not always commensurate with the expectations of the authors of such legislation. The educative process which must precede, accompany and follow the legislative activity concerned with land reform is often not attended to with the necessary thoroughness and vigour. The acceptance and implementation of land reform laws, and especially the playing of an active and progressive role in the new situation created by land reform measures are aspects of developmental effort which have to be consciously adopted. Success of land reform measures would depend at least as much on this psychological reformation as on having a comprehensive law or on having sufficient domestic or foreign resources to finance several aspects of land reform schemes. In fact it is as true about personnel, as about water, that foreign aid can only help to do a little more expeditiously what ultimately is really a transformation of the resources which the people themselves possess.

LEADERSHIP IN RURAL AREAS

For economic development generally, and for agrarian change in particular, more important than land and other physical resources are the men themselves. Small farms, and farms in comparatively unfavourable surroundings have become models of good husbandry where the men who tilled them have shown qualities of resourcefulness, skill and organizing capacity which were adequate to meet the challenge of nature. On the other hand in many developing countries where existing and potential resources of nature are recognized to be favourable, and where other resources are available from external sources, it is often found difficult to initiate and sustain a really strong movement for rural development. The explanation for relative slowness of growth is to be found usually in the lack of progressiveness and of capacity to lead in innovation from which the people at large suffer. This drawback is as a rule an old heritage and it takes time to overcome it. But even in this process usually it is the urban and non-agricultural interests which generally have the advantage of priority of awakening and action. Even in revolutionary movements which aimed at establishment of socialist economies, such as Soviet Russia and other communist countries, the lot of the rural population has for the most part been that of buffeted victims at the mercy of passing waves of passion and prejudice emanating from higher urban quarters. The position in developing countries which are under the spell of professedly democratic constitutions is not much better. Even land reform laws and patterns of farm organization which claim to be parts of a progressive social policy often emanate from people who never in their life have experienced the stresses and strains of a life on the land. Such leadership in situations in which most developing countries find themselves is both necessary and valuable. But to produce really beneficent and lasting results leadership on a practical and continuing level must be taken up by people whose lot is directly involved in changes that take place in the villages.

In a manner of speaking the worst effects of concentrated and monopolistic land ownership are seen where the land owners have lost interest in either their social or professional opportunities for constructive and progressive leadership. Any measures of land reform which bring new classes of people into situations in which opportunities

for initiative and enterprise open out before them is likely to evoke at least in a fair percentage among them a responsive reaction. The changes of this favourable result are improved if a policy of constructive assistance and popular institutionalization accompanies land reform measures. Land reform has sometimes been hailed as an improvement which may strengthen the prospects of industrial growth by channelling the surplus produce of agriculture into non-agricultural investment. The prospects of this hope being fulfilled are by no means universally assured. In any case they are of a long-term import. More rapid and more effective is the contribution which the manpower trained and released from the newly awakened and reorganized rural parts is capable of making at all levels of national life. Investment of talent and resources in rural areas is likely to pay dividends in human terms much more quickly than in material ones. From the standpoint of the overall progress of society this is to be welcomed.

MODERNIZATION AND TRADITION

A large part of social thought which in advanced capitalistic countries favours individual family farms is based on the assumption that an average farmer is so thoroughly individualist in his approach to farming that his initiative and incentive can never be sustained in any other form. At first glance this is a very unexpected attitude. In the very countries in which all forms of joint cultivation, cooperative or other, are discouraged the principle of joint stock enterprise is promoted almost as a boon in all other fields of economic activity. Considering that a very small fraction, and a dwindling fraction at that, is now engaged in agricultural pursuits even the social argument, that an independent peasantry is the back-bone of a democratic society, is ceasing to be plausible. It is little more than a symbolic reaction against some extreme communist forms that leading nations in the capitalist world make it almost an article of religious faith not to tolerate at least officially, any joint forms of cultivation. In opulent societies this social fetish can be easily indulged. But there is at least some reason to believe that the scale on which an optimum combination of factors is seen to be needed makes the prospect of continued individualization of farming activity somewhat doubtful.

In societies which are in an acute stage of industrial transformation, such as Italy or Japan, it is seen that unless some form of joint cultivation, such as corporate or cooperative, is encouraged, productivity and earnings in agriculture will not match with those in non-agricultural pursuits. Small land-holders are tending to become part-time agriculturists by choice, and not by necessity as they are in the developing economies. In an economically developed and socially progressive community there is not the same resistance to separation from land which one is accustomed to find in populous and undeveloped economies. Even in these latter once the crust of tradition and defensive inertia is broken prospects of marked improvement in standards of living have been known to change the ways of people very radically. For the practice of virtues which are associated with the working of progressive democratic societies an improvement in material well-being as well as in standards of professional efficiency is equally essential. For the promotion of democratic culture, therefore, a rapid technological transformation and raising of material standards in rural occupations is urgently called for.

To hold cooperative practice of agriculture as a socially or democratically tabooed concept will not fit in with the contemporary urges in developing economies. That is why, even outside the communist countries all degrees and forms of cooperativization

are experimented with. This is not to suggest that all forms of cooperation will suit all situations, but a selective and spontaneous approach to patterns of farm organization has to be maintained if agrarian reform is to strengthen democracy and maximize welfare. Mexico, Italy, Egypt, Japan, not to mention Israel, are a few examples of countries which have freely experimented on a selective basis with different forms of farm organizations, cooperative and others.

DECENTRALIZATION

While a merely sentimental or ideological prepossession in favour of family farms is not likely to withstand strong technological and economic pressure the need for improvization and quick response which is inherent in the enterprise of profitable exploitation of land would continue to place a high premium on a decentralized pattern of organization. All attempts at highly centralized and stereotyped management of farming over a long period have produced disappointing results both in communist and capitalist countries. Even for plantation crops, which within a single unit have a large measure of coordinated action, almost complete autonomy of operational and even planning decision has to be conferred on local managements. Where more individual care and quick adjustments of plans and work schedules are necessary, even smaller units of operation are seen to be necessary. To add to these structural peculiarities of agriculture, if we add unpredictability and variability of climatic conditions the prospects of centralized decision making proving successful in agriculture become even less. Within and between countries there would be such a large measure of difference in all these essential factors that no single pattern of farm organization can be confidently expected to yield maximum benefit. The only common feature of all farm patterns would be the relatively larger importance of decentralized planning and operation, as compared to non-agricultural enterprises. The actual record of developing countries supports this selective thesis.

URBANIZATION AND AGRICULTURE

The process of modernization of developing societies is characterized by a growing application of science and technology to methods of production. On account of the growing scale of operation and of the growing inter-dependence of different sections of the community modernization is also accompanied by urbanization. This dual process to be natural and healthy must extend to the mass of the people. The emergence of a few populous centres or of a few units of modern industry do not by themselves constitute the main current of the modernization of a society. As the traditional industry of the people absorbs the benefits of modernization, a transformation of agriculture into a progressive business takes place. This in turn leads to diversification of industry, lessening dependence on agriculture and proliferation of urbanized neighbourhoods. The stark juxtaposition between urban and rural areas is avoided by the natural process of urbanization of the whole community. While growing size of a place is a concomitant of urbanization it would be wrong to measure the progress of urbanization by the size of a place. Urbanization is primarily a pattern of work and of living; only incidentally it is a matter of the size or density of population. In so far as agriculture absorbs methods of scientific progress, and in so far as the ways of living of agriculturally employed population conform to

higher standards of civic progress urbanization and advanced agriculture would progress hand in hand. By a process of improved communication and dispersed location of industry a widespread pattern of urbanization can be attained without creating a gulf between prosperous cities and decaying villages. To some extent conscious effort to avoid this evil has to be made even in advanced countries. But in countries which are experiencing the early impact of externally induced forces of modernization, a much more deliberate attempt is needed to ensure that modernization casts its roots in the native soil and that it flowers all over the land.

POPULATION AND ECONOMIC DEVELOPMENT

One of the advantages of rapid movements of international exchange is the obvious improvement in medicine, especially in curative medicine, and in the control of major epidemic diseases from which most of the developing economies are benefiting. The effects of this change have been all to the good so far as promotion of human welfare is concerned. The pace at which scientific knowledge and industrial skills move across the frontiers of nations are, however, nothing like the pace at which the final products of the industry of advanced nations find their way into the hitherto backward parts of the world. Intercourse among nations does not as easily lead to the progress of knowledge and industry as it leads to an improvement in mortality rates. The social, economic and cultural advantages to be expected from a better system of education and research and from an advanced type of industry are lacking in a society which is benefiting only from some of the end-products of advanced civilization. The advantages created by better systems of medicine and health must be accompanied and matched by similar advantages of education and industry, so that better health may mean better welfare. As most of the hitherto backward communities are largely rural, the improvement in their standards of knowledge and of occupational efficiency, to be sufficiently widespread and effective, must extend to agriculture, that is to the best methods of using land resources. A predominantly agricultural society will not show signs of a major change unless and until such change occurs among the rural people, in their ways of living and employment. Agrarian development is thus basic to any scheme of the modernization of hitherto undeveloped societies. Whether it is productive efficiency or social welfare the progress of these communities must be measured by the extent to which the common mass of rural population has become more productive or more sophisticated and more happy.

LAND OWNERSHIP

In its institutional aspect agrarian reform entails adjustment of opportunities for the use of land. Assured opportunities create rights and therefore agrarian reform has to start with a clear concept of a legally supported system of landholding. Traditionally land, like other natural means of human existence, has been treated as the common possession of society, and its use has been regulated according to customs which are so universally accepted to be socially beneficent as to merit the support of collective authority. This is obviously true of what are described as tribal tenures where cultivation is done by big family groups, which are constituents of a tribe, and which more often than not are on the move from year to year seeking fresh or at least refreshed land. In essence, even the much coveted rights of free hold in some modern societies are based on no greater sanction than that the community which supports them by legal sanction,

acts on a convention that such a tenure makes for a collectively desirable relationship.

As agrarian reform almost invariably involves some readjustment of rights in land, and as any such step always rouses strong feelings among holders of vested rights it is necessary to realize that there are no natural rights to land, or to any other possession in society. The only natural right was the one announced long ago by the successful leader of a barbarian tribe who claimed the possession of Rome on the "eternal principle that they should take who have the power, and they should keep who can". In a civic society changes must come through processes of law, but the law itself is justified by its contribution towards the fulfilment of generally accepted social objectives, material as well as moral. While in regard to means of consumption on possession is desired for direct satisfaction of the wants of the possessor himself, in regard to the means of production merits of a system of holding are to be judged by reference to the contribution which it makes towards promoting better production in the interest of the holder as well as that of the community.

Property in means of production in a developing economy must bear fruit in promoting most productive use, and in a democratic State opportunities for use of means of production have to be made available on a basically equalitarian principle. In the pursuit of these ideals institutions of land-holding and of land use must be kept under constant review with a view to ensuring that they neither create a private monopoly nor do they entail social waste. Land policy is a part of social policy in the sphere of possession and use of means of production. In the very nature of things, in a dynamic society it cannot be a once and for all step taken only in relation to a section of the population. It must be consistent with overall social policy and it must continue to promote the values of social welfare which a democracy cherishes.

STATE AID

In a welfare State, whether it has formally adopted a policy of economic planning or not, the whole nation is interested in setting on foot forms of organization and channels of investment which are designed to broadbase and maximize welfare. If the State is a democracy it would normally try to reduce governmental action, especially action by centralized agencies of government to a minimum. It is now recognized that through appropriate means a democratic government has to ensure that investment of resources, including human resources, is so directed as to produce the overall conditions in which individual units of free enterprise can be expected to maximize economic returns and social satisfactions within the major guide posts of social policy. Matters like price and wage policies, taxation measures, educational programmes fall in this category. It is not so easily recognized that in a developing economy a large variety of investments are initially needed in fields which may not offer assured competitive return to private investors. Irrigation, transport and power are well-known instances of this sort, and public enterprise in all these has come to be not only tolerated but even welcomed by the private investors themselves. Of a less obvious sort are investments in building up institutions which are ultimately intended to play a significant role in a democratic and progressive economy. This is true especially of cooperative organizations. The purists, especially from the more advanced countries, are almost completely incapable of appreciating how governmental personnel or funds engaged in cooperative organizations can leave untarnished their cooperative character, or help them

to build up progressive strength. If the State concerned is itself firmly convinced of democratic and cooperative values it can, and it must, set the nascent cooperatives on the way to growing self-reliance and efficiency.

An act not only of wise statesmanship, but also of unusual self-restraint, is involved in following such a policy with requisite generosity and unflinching faith. This is a difficult, but not an unrealistic or rash policy. The cooperatives which were established as a compulsory measure among the beneficiaries of land reform in Egypt, and which were run in initial stages largely with governmental funds and personnel have now been made fully self-reliant as regards personnel, and the resources which they need are supplied by appropriate institutions in the normal way. In India State-partnered cooperatives have become an accepted policy, and at least in some States the governmental element in management has been fully withdrawn. In many of the earlier efforts of land reform, not only were constructive aids to efficient farming grossly neglected, but inhibitions about State action in the field of supplying such aids were treated as good enough excuse for the miserable results which followed. As a rule beneficiaries of land reform would be without the resources which are needed to make a success of their new venture, and private sources would be inadequate to supply these wants in a spirit consistent with the social and economic objectives of land reform. Hence a full-scale State support to all the institutional and technological requisites of agrarian development must be considered to be essential accompaniments of land reform.

AGRARIAN MOVEMENT IN INDIA

That in the country generally, and specifically in rural areas, there is a new stirring since independence is undoubted. In so far as the land reform measures of several State Governments constitute an articulation of, and a response to, this urge to have an equal opportunity of self-expression they have met a definite need. A sense of greater social and economic equality of opportunity corresponding to the rights of equal citizenship, pervades the rural areas. To some extent the community development and the national extension movements have supplied institutional and material means of constructive use of the new opportunities thus opened to rural people. But the general tempo of industrialization in the country has not yet reached the stage where the pressure of population on land may be said to be easing off. So long as there are more people engaged in agriculture than can find useful and full employment in it the productivity per man employed in agriculture is bound to be low. A general shortage of scientific and technological personnel, and paucity of essential aids to progressive agriculture such as fertilizers limit the rapid growth of productivity per acre as well.

As is well known, during the Second Five-Year Plan, owing to these drawbacks, and owing to institutional and administrative imperfections even the potentialities of newly irrigated land were not actually exploited according to expectations. The lessons of this experience have influenced the Third Plan to some extent, and yet one cannot avoid a feeling that the full measure of the importance and need of agricultural development in the new context of land reform schemes have yet to be fully realized. Each problem such as food, raw materials, seed, fertilizer and credit tends to be considered mostly in isolation. A plan concentrated on productive and technological transformation should necessarily lead to a programme of major institutional reform and adequate financial investment. Probably to muster enough determination and resource for

such a supreme effort to cross the hump, or to execute a convincing take-off may have to wait on some further progress in the economy as a whole. Be that as it may, but it would be wrong to assume that the hump has been crossed or that our total economy, including rural economy, has taken off from a stagnant to a progressive State.

LAND REFORM AND DEMOCRATIC PLANNING

In most countries, and especially in developing economies, there is some systematic effort at long-term planning for industrial investment and the agencies which are responsible for planning have to operate at all levels. Both the making of the plan and its execution are rendered more realistic and more effective by the participation of the people on the widest possible scale. This means that at least for the rural part of the plan unless the programmes of investment in agriculture are well thought out and are suitably provided for no assured basis for national economic development may exist. That is why all attempts at national economic planning which have not given agriculture the high priority which it deserves have not fully succeeded. So also, if planning is to be democratic people's participation must be on a level which is appropriate to their interest. For the rural people, their civic institutions are the village, bloc or district bodies. These bodies must be made increasingly responsible for the general aspects of agrarian reform within their areas. Especially for implementation of laws and for providing services the intelligent support of local bodies offers good insurance for a bona fide working of policies and measures.

AGRICULTURAL EMPLOYMENT

In most balanced economies, that is economies which have a variety of occupations in which their members are employed, economic development has been characterized by a falling percentage of people dependent on agriculture. In substance, this trend stands for the growing productivity of labour employed in agriculture. For instance, in the United States during the last fifty years the standard of productivity per person employed in agriculture has more than quadrupled, so that one-fourth of the number of persons who were needed to keep the rest of the economy going are now enough to do so. Land reform in a society which has so diversified its economy as to draw away from agriculture a growing percentage of people, and which has so developed productivity in the agricultural sector as to make this possible, can place increasing emphasis on productivity. Whereas in a backward or developing economy the emphasis of land reform is to ensure for as many farmers as possible access to at least a modicum of land, in a developed society, for the most part, the attempt is to ensure for the agriculturally employed part of the population the same level of earning and comfort as is normal in the industrial sector. Hence the emphasis is not on spreading possession of cultivable land, but to form optimum sized units for those who would remain in agriculture. Land reform has thus to change its objective so as to meet the appropriate requirements of each stage of total economic development. Even the developing economies must keep in view the prospects of such change in the future. Land reform is an aspect of appropriate readjustment of agrarian institutions so as to meet the requirements of the economy. How fast the percentage of agriculturally employed population is falling is generally a good index of the tempo of economic change. Land reform must also keep pace with this tempo.

IMPORTANCE OF FOREIGN AID

Foreign aid has a special relevance to problems of accelerating the tempo of economic growth. There is need to emphasize that when projects of international aid to developing countries are under consideration the appropriate place of agrarian reform in the particular project, if that is relevant, and in any case, the place of agrarian reform in the country's plans of development taken as a whole must be specifically considered. The essential justification of international economic aid is the hope that as a result the receiving countries will attain balanced and rapid economic growth so that they may eventually assume the position of full partnership in the world community. If this hope is to be fulfilled the large mass of rural population must be stirred to progressive economic activity, and this cannot be attained unless the full measures of land reform as well as of agrarian reconstruction and development is put into effect as a basic constituent of national plans. The World Bank is by no means unmindful of this crucial importance of agrarian reformation. In some of the country schemes of transport and irrigational development, financed by the Bank, an important stipulation regarding the reform of land system and of agrarian services in the affected areas has been specifically laid down. In a few cases the World Bank has directly assisted schemes designed to encourage institutional services in areas in which land reform measures are contemplated. The main responsibility, however, must lie on the governments of the countries concerned. If they realize the crucial importance of institutional and physical reorganization of their rural areas external assistance, both technological and material, will be found without much difficulty. In a recent case, one country went so far as to offer to settle a very serious issue of international relations in exchange for a number of bulldozers and tractors needed urgently to meet the situation created by large scale agrarian transformation. Guns or butter, used to be a juxtaposition of State-objectives some years ago. We seem to be entering an age when guns or tractors may be offered as a significant choice of instruments of regulating international relations.

LAND REFORM AND PRODUCTIVITY

It is not necessary, nor is it universal, that land reform should even in the short run result in a diminution of agricultural productivity. In all conscience the ousted land-owners as a class are often so unmindful of their opportunities and responsibilities that things could hardly be worse under any system which brings the cultivator into complete identification with the land which he tills. Such a direct incentive to greater labour has been a positive influence in improving productivity. Where, as in Egypt, other means of production and technical advice have been made available productivity has definitely improved. The situation in all these respects is, however, variable from region to region, and some time may have to elapse before the disorganization with which land reform starts passes through all the positive stages of rehabilitation and development. Pending the fruition of developmental measures supplies of agricultural produce, especially of foodstuffs, may be adversely affected. Even the apprehension of such an unfavourable consequence is sometimes a deterrent to adoption of landreform measures. Where a country itself cannot muster enough resource and determination to tideover the transition it should be possible to use international surpluses of agricultural commodities to help alleviate the period of temporary shortage. Recently an expert committee set

up by the Food and Agriculture Organization has recommended that under the aegis of that body surplus stocks of agricultural commodities, which many of the advanced countries now find mostly unavoidable and inconvenient, should be utilized in an orderly manner to facilitate schemes of agrarian reform in the developing countries. The substance of these recommendations has been widely approved, and at least in terms of the needs of the growing urban population in developing countries it should now be feasible simultaneously to initiate agrarian and industrial development in countries seeking rapid modernization. This prospect has tremendous significance for countries of the old world, but even more so for new nations which are coming on the horizon in Africa and some other parts of the world.

NEED FOR STATISTICAL KNOWLEDGE

The whole process of agrarian reform as part of a national plan of development calls for accurate collection of data and its sound and significant analysis. In a country, not far away from the frontiers of India, even the initial data about the land likely to be affected by some major schemes of reconstruction and development was found to be grossly wide of the mark when the schemes actually came to be launched. Data regarding human aspects of schemes of rural reorganization are generally even less comprehensive and less reliable. When we realize that major projects of rural reconstruction have to be initiated in newly settled areas of the world not only the need for collecting statistical data, but the need to have more serviceable alternative methods of collection to suit conditions of poor and backward countries, become more apparent. With us here some of the earlier problems of land settlement have already been solved, though in areas affected by abolition of zamindari tenure much more data has yet to be gathered before these areas can receive the kind of systematic attention which the rayatwari areas of old are accustomed to get. Right from land allocation, to framing programmes of agricultural extension and development much more needs to be known about the facts on the ground than is known at present. Policies and programmes based on aggregates and averages are apt to prove not only inapplicable but positively misleading when it comes to implementing them in individual cases.

This is true of almost all aspects of agrarian reform. Especially, when one takes in hand such an intensive and individualized scheme of concentrated agricultural development like the "package programme" introduced in selected districts one comes up against the inexorable law of nature, namely, that you cannot have in the fruit that which you have not got in the seed. The national plan, and even the State or district plans, of agricultural development can be made to appear plausible by presentation of rough and round figures, and one can walk away from responsibility for consequences by referring to the laws of averages and probabilities. But when one has the responsibility for advising individual farmers to make a plan for development during the year, as part of a long term plan, the sheer impossibility of doing this without adequate data becomes obvious. I admire the operators of this programme for their spirit of enterprise and assurance in proceeding with it when neither the cultivator nor his friends know for certain either the extent of his capital resources, or of his inputs, or of the likely outputs. Agricultural statisticians must help in filling these gaps if need be by devising new methods even more urgently and more specifically than they have been able to do in the past. I wish that cooperation between makers of policies and programmes on the one

hand, and practitioners of agricultural economics and statistics on the other, official as well as non-official, were closer and more timely than it is at present. A stitch in time saves nine is as true about statistical as of other covers. I trust that the deliberations of this conference will go some way in impressing this truth on all concerned.

Land Reform and Agrarian Development in Developing Countries

TENURE REFORM—AN AID TO DEVELOPMENT

THE developmental aspects of land reform appear to have been neglected in many of the developing countries for quite some time. The encouragement to land reform, as an urgent measure of socio-economic policy, came from U.N. sources, and from such international conferences as the one held at Madison, Wisconsin, in 1951. It is of interest to note that many of the discussions of those days were more pointedly directed to Land Tenures, than to "Related Problems in World Agriculture." In the connected documents and speeches several aspects of what was generically described as land reform are mentioned without any attempt at evolving a consistent series of steps by which tenure reform was to progress, through agrarian development, to the objective of promoting the welfare of rural populations. The first, if not the primary, emphasis was on tenures.

In the context of extension services and supply agencies for producer goods, as also of price support policies, already established in some of the developed countries, elaboration of a full scale programme of agrarian development, following on land reform, was perhaps not thought to be necessary. The position in all these respects was, however, quite different in the developing countries. In many cases ideas like "peasant proprietorship" and "land to the tiller" were more or less too literally interpreted. Especially in countries where new popular governments were installed after struggles, in which the bigger landlords had been either hostile or indifferent to the political and social aspirations of the people, land reform was almost invariably treated as amounting to little more than legal steps for closely confining the rights of owners to the possession of a certain maximum area of land, and acquiring the surplus for redistribution among the tenants and landless agricultural workers.

By comparison, the more positive implications of the relevant resolutions of the U.N. General Assembly failed to evoke sustained interest. The General Assembly at its Fifth Session, held in 1950, while considering the problem of land reform, had expres-

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sed the view that agrarian conditions which persisted in many under-developed countries which constituted a barrier to their economic development, because such conditions reduced agricultural productivity and were a major cause of low standards of living for the population of those countries. In most of the Latin American and South East Asian countries where measures for dispossessing the big landowners were expeditiously adopted further measures of promoting agricultural productivity and economic development were not necessarily treated as an integral and essential part of purposeful land reform.

There were a few exceptions to this lop-sided and restricted approach to land reform. The most prominent exception was that of Egypt where the revolutionary government built into the land reform law a whole series of steps from dispossession to re-allotment, cooperative servicing, extension guidance, supplies on credit and institutional marketing. Land reform areas were treated separately from the rest of the agricultural areas, and in the former all efforts at reorganization and development were sought to be channelled, in the initial stages, through the land reform agencies themselves. Re-organizational and developmental efforts were not confined to land reform areas. For instance in the Navag district a major programme of land consolidation and cooperative crop planning was successfully carried out. The substance of Egyptian thought on the subject was summarized in the saying "Low yields are a greater enemy of the farmer than the landlord." Without tenure reform where possible, and with tenure reform where necessary, the main task of rural reformers was seen to be agrarian development.

Actually governments which came into power in developing countries after the Second World War have derived considerable support and guidance in their agricultural policies from the U.N. and from its special agencies. The ancient traditions of many of these lands contained instances of a periodic pooling and redistribution of land so as to equate the opportunities of all farmers of earning a decent livelihood for themselves by their own efforts. Measures of expropriation and redistribution of surplus land seemed to fit in very naturally with these traditions and the prevailing feeling of antagonism towards big and absentee landowners in many cases facilitated the early adoption of land reform measures in their interpretation. Several somewhat drastic financial and legal features of land reform could be incorporated into the relevant laws with great popular support and without much effective opposition from the bigger landlords. The more systematic and sustained task of pursuing the policy of agrarian reform and development to its ultimate end of changing the whole institutional pattern of rural life to ensure better production and better welfare could not be so easily accomplished.

LAND REFORM—PART OF SOCIO-ECONOMIC PLANNING

(1) An awareness of the justice of providing equal opportunities to all to improve their lot by their own effort, (2) an overall responsibility for securing for all classes a standard of welfare commensurate with the stage of the progress of the national economy, and (3) a readiness to support by active public assistance all efforts of individuals which are calculated to improve their own lot and contribute to the progress of the nation are the three basic principles which underlie any constructive or developmental approach towards land reform. Where land reform measures are taken by one major action, and are not left to be gradually adopted by an evolutionary process, the conviction of the rulers regarding these principles has to be sufficiently strong and sustained to keep them

interested in extending the scope of land reform to its more positive and constructive aspects. In societies which have a democratic government it would naturally be expected that not only those who are directly interested in agriculture, but also those who are interested in non-agricultural pursuits must accept the justice and need of a sustained policy of an egalitarian and socially sponsored economy. Corresponding to land reform measures in the context of agrarian development, suitable steps for the reorganization and development of the rest of the economy have to be planned. Land reform would then cease to be a partial or sectional policy. Not only would mutually supporting steps be taken in agriculture and what may be broadly described as industry, but all classes will have an equal commitment both to agrarian and industrial development.

Even in those developing countries which commenced their programmes of land reform in a vigorous and integrated manner there have been instances of the effort spending itself when the lands expropriated from the opponents of the new regime were already redistributed and settled. A land reform which has stopped half-way, or has been only half-heartedly undertaken, almost inevitably creates conditions which are inimical to justice as well as to overall development. To change the pattern of land distribution from that of impoverished and uninterested tillers to one of well-equipped and devoted farm operators, policy makers must be prepared to go to the farthest necessary extent both in regard to pooling and redistribution of land and in regard to making adequate social investments in the whole endeavour. In the absence of adequate social services, and with only a partial movement towards equipping operating farmers with the means of their own, new rent-receiving functionaries of several sorts are added to the survivors of the olden pattern. Not only does land reform not lead on to agrarian development, but a newly re-entrenched class of middle farmers and middlemen stand in the way of the fullest effort of agriculturally employed population being most productively used.

Land reform has a justification as the first step in the strategy of national economic development in countries, especially in thickly populated countries which have set to themselves the tasks of ensuring at the earliest possible date full employment and rising welfare for their people. (a) It is obvious that developing countries beset with problems of population growth cannot hope to order either their agrarian or their industrial economy without adopting an active programme of population planning. (b) Industries of such nations will largely have to draw on local materials and depend on expanding local markets. (c) The hopes of increasingly profitable agriculture would inevitably depend on the demands of industry and of the urban populations. (d) Above all, the human complement will have to be fully sensitized to new opportunities and responsibilities. In all these respects there is a basic and inescapable unity of interest as well as of mutual dependence between agriculture and the rest of the economy, which deserves to be emphasized more frequently than is usually done in discussions about land reform and its implementation.

EMPLOYMENT AND PRODUCTIVITY

The developmental prospects of land reform measures depend principally on three factors: (1) How far do the new arrangements facilitate the adoption of better techniques of cultivation and of other occupations opened out before rural workers? (2) How far is added investment of capital in installation and operation of better techniques rendered feasible? and (3) How far planning and managerial skills needed to ensure

the efficient working of technologically better organized farms are available? To the extent, to which a satisfactory answer is forthcoming to these questions land reform will have a developmental significance, and its beneficent results will be reflected in rising standards of living and of welfare among the rural population. Improved and better organized farming will expand employment, it will enhance the productivity of farming effort. In effect the per capita and the per hectare production and income will tend to rise. These prospects, however, will not follow without appropriate action on the part of individuals as well as of the community.

Some of the aids to improved farming, which are in the nature of a productive infra-structure available to all producers e.g. land reclamation, irrigation, and power supply can only be socially supplied by the state. There are a number of technical and administrative services which also have to be publicly supplied. But independently of these investments by the public individual farmers and other rurally employed personnel are expected to increase their own investments of capital and labour. By any normal economic calculation land reform should lead to a reduction of burdens on its beneficiaries. To the extent to which this does happen in fact farmers would have added capacity for saving. If this added capacity is not frittered away in consumption, but is productively used, farmers will have a better opportunity to enhance their productivity and income by their own effort and by benefiting to the full from publicly created productive services. To a noticeable extent in many developing countries, which have adopted land reform, and which at the same time have created more opportunities and incentives for improved and intensive cultivation, a welcome trend towards greater investment on the part of small farmers is noticed. Figures for productive loans, for short as well as long terms, made by cooperative and other banks in land reform areas would prove this beyond a doubt.

It is a common experience that owner operators, especially those who have less than full employment in their normal occupation, tend to over-invest in the shape of cultivation labour. What would not be quite remunerative labour, if it is to be paid for by a wage, is undertaken to secure a fringe advantage. Land reform would normally accentuate this tendency. Balancing this favourable factor adding to production, if not to productivity, of agriculture is the tendency of small owner farmers to expand their subsistence farms at the cost, if necessary of their production of marketable produce. At a certain low level of income and welfare this tendency is natural. Sufficient outlet has to be found for it by more intensive methods of cultivation and by offering adequate incentives and opportunities for raising more remunerative crops for the market. These correctives have almost invariably led to favourable results once the transitional reactions on the attitude of farmers were absorbed in their more balanced managerial decisions.

Where pressure of population on land is heavy, and continues to be heavier, the prospects of maximizing the developmental impact of land reform to its fullest technological potential are not very bright. This is true as much of industry, as of agriculture. The whole scheme of land reform including features such as the size of the ceiling on holdings and of the redistributed allotments, is bound to be influenced by considerations of offering productive employment to the maximum number. Where the best technological levels cannot be reached by all, an attempt, has still to be made to keep the efficiency of every one on an increasing scale. Publicly sponsored aids to improved efficiency have a special relevance in this respect.

Diversification of rural employment in industry, especially in labour intensive and agriculturally oriented industries, have a special claim on the attention of the planners in earlier stages of land reform. This policy affects not only farmers and other elements in the rural population, but in one way or another it affects all classes of the community. An overall national balance of advantage has to be struck. The stages as well as the content and accompaniment of land reforms have to be made to fit in with similar claims of other parts of the economy. In the national economies of developing countries, and especially in rural areas, the mutual impact of modernized processes in agriculture and industry is asserting itself more and more powerfully. In this process of modernization which is not only inevitably, but basically beneficial, certain classes of agriculturally employed population such as wage-earners and tenants tend to be exposed to unfair treatment. The legal protection of the just rights of these classes by means of tenancy laws and labour laws is also a necessary part of land reform measures. It is only when at some later stage a balance between population and employments at high levels of technological efficiency is reached that all the land reform measures, tenurial and developmental, will have their fullest impact on productivity and incomes.

COHESION AMONG DEVELOPMENTAL INSTITUTIONS

Land reform seeks to create a new relationship between men and the means of their industry and livelihood. Institutions and norms which are appropriate to the pre-land reform period are naturally in need of a fresh appraisal, and of modification or replacement when necessary. Emphasis on redistribution and rearrangement according to law, and in keeping with accepted social policy, are matters which are most satisfactorily achieved through local committees set up for the purpose. The official machinery, no doubt, has responsibility to execute the land reform laws. But popular participation at all stages of transformation makes for smoother and more purposeful accomplishment. A continuing habit of collective action initiated at the very inception of land reform stands in good stead for further more positive steps intended to enhance productivity. Besides such *ad hoc* bodies which only a few of the developing countries have in fact set up, there are the more widespread community development organizations. In several cases by a mistaken view about land reform being a legislative measure in the interest of a single class, community organizations claiming to promote corporate policies for the development of all classes, by voluntary cooperation among them have held aloof from all aspects of land reform. This aloofness has impaired the vitality of both land reform and community development.

Almost the same can be said about organs of village and block or county governments. In many cases the form of government has been too centralized to provide for semi-autonomous local bodies. But even when such bodies have in fact been set up they have either not been utilized for implementing or following up land reform measures, or they have been under influences which have not always sympathized with land reform. In both cases, however, once the initial impact of land reform has been absorbed by the interaction between the local agricultural interests on the one hand, and the official land reform organization on the other all local organizations, community development and village and block councils, take up the administration of all the so-called developmental functions. These often consist of control over making available several aids to improved cultivation and living on the part of the farming community. To the extent

to which the initial land reform measures have been half-hearted or incomplete these further aids to development also tend to produce unequal and limited results. In the few cases in which land reform, community development and local governing councils have found it possible to work in cohesion the results in respect of social amity and developmental achievement have been very striking.

The difficulty of establishing an identity of policy and interest in its detailed implementation among several organizations having responsibilities in the same field became more accentuated at higher levels of operation. Especially in fields like credit policy, supply of essential but scarce means of development and integrated price structure positive steps following on initial land reform are very much under the influence of State policy. As a rule departments of State are far removed from the field, and they tend to operate, especially in non-Presidential forms of government, as semi-independent agencies. The small farmers and their organizations often find it well-nigh impossible to get speedy and consistent guidance or assistance from higher centres of governmental authority. In the field of non-agricultural activities in rural areas the difficulties of evoking the interest of a variety of distant authorities are almost insurmountable. So long as land reform, and all it stands for both in agricultural and industrial development of the countryside, are only official policies, and do not constitute a cherished objective of the people at large the small farmer, the presumptive beneficiary of land reform feels even more completely left out than he was before. Among all concerned institutions at any given level, and between institutions and authorities at different levels an identity of purpose, and a common responsibility for its achievement must be more specifically secured than has been done in most developing countries. Then alone will the full potential of released enterprise of farmers, and of other rural people, be actually realized.

TENANCY LAW

Land reform laws themselves provide for tenancies in some cases, either because for a temporary period operation by the registered owner is not possible or because the conditions of operation and management are such that participation by tenant collaborators is considered more conducive to development efficiency than employment of wage labour. In some other cases land reform may actually be designed to stop short of expropriation, and of creation of new owner-farmers. The administrative, the financial and the economic strain of an extreme and comprehensive measure of this type may be considered to be too great for the community to bear at the given stage. In these circumstances recognizing a tenant status and giving it all the attributes necessary to promote agrarian development through tenant farming becomes necessary. A hasty abolition of tenancies by law without taking into account all the consequences of disorganization is a much greater impediment to progress than recognizing tenancy as a legally valid and socially useful status, and giving to it all the developmental advantages to which its role in the agrarian economy entitles it.

The contents of a sound tenancy law are too well-known to need repetition. The main thing to be achieved is the creation of a sense of security, of status as well as of legitimate return, for the tenant, and well-known norms in both these respects have now been established in all developing countries. The continuing shortcomings which still hamper agrarian development on tenant-operated lands are, however, serious. We have known, for instance, in some parts of India, where the population pressure is very

strong, that tenants have no more than an oral understanding with their landlords to rely on. For the tenants themselves this insecurity is harmful in terms of their return from farm labour. But for the community as a whole the indifferent contribution by the farmer, and the incapacity of professional or public agencies to deal with such tenants, except through their landlords who even if they are not absent from the scene of operations are not much interested in productive improvement, constitute a serious impediment to progress. In critical areas of development, such as the rice areas in South India, oral tenancies have held up progress in a manner which does little credit either to the legislator or to the planner.

ADMINISTRATION OF REFORM MEASURES

It is not difficult to confer legal rights of tenancy on all those who at any given date are actually cultivating a piece of land. In fact this has been done in some areas. But the creation and maintenance of the necessary records, and later implementation of protective laws in the face of an apparent unwillingness on the part of the tenant himself have not been forthcoming in all cases. Any reform of tenures, either the extreme one of dispossession and redistribution or the milder one of protected tenancies, is inoperable in the absence of records and of a dependable agency for administration. Even in the best of conditions in both these respects enforcement of tenancy legislation becomes difficult if the tenants themselves continue to be completely dependent on their landlords for all their production needs and for some at least of their consumption needs. Professional and publicly sponsored agencies such as cooperative and private banks, and distributors of seed, fertilizers and pesticides and even governmental agencies have shown great unwillingness to equip tenants as a class and especially tenants who have no more than an oral contract to show for their status. A determined action in support of land reform measures is necessary in all these quarters if agrarian development is not to be held up because of the complete or partial incapacity of tenants of all descriptions to participate in the process of development.

Only in a very few among the developing countries has violation of land reform or tenure laws made a public wrong. As a rule it is still the aggrieved tenant or worker who has to seek legal relief. Experience of all social legislation has proved that those who are sought to be protected by such legislation are generally not in a position to invoke the protection which is granted to them by law. They are in too weak and exposed a position to do this. In some other protective laws than tenancy laws not only has violation been made a public wrong but a special official machinery has been set up to locate and to prosecute the wrong-doers. This has not been done as generally in regard to laws for the protection of tenants as has been done for the protection say, of industrial employees. Even if special provisions of laws and of law enforcement were made in the absence of sufficient support from developmental agencies the tenants would still feel hesitant to avail themselves of the protection of law. Protection must be matched by supply of technical advice and of producer goods and services. Unless all tenancies are made secure possessions, and unless they are treated on par with ownership for participation in all developmental advantages agrarian reform over large parts of developing countries will be severely restricted.

Most of these measures of legal and administrative implementation of land reform programmes can be taken only by the people and governments of the developing

countries themselves. As their personnel and financial resources are likely to be limited foreign assistance especially assistance from U.N. institutions, must be forthcoming in adequate measure. Wherever land reform measures and their incorporation in a programme of national development are assured, U.N. Agencies should agree to find enough of scientific, technical and financial assistance to set the country well on the way to realizing the benefits of planned reform. In due course the personnel and institutions of the aided country would take up further progress on their own strength. Already a good deal is being done in these respects by U.N. and the specialized agencies. The recent decision of the World Bank to support schemes of agricultural development in collaboration with the Food and Agriculture Organization should strengthen the hopes of all developing countries who are determined to take to land reform with a full commitment to the cause of agrarian development.

FARM ORGANIZATION AND FARM MANAGEMENT

In developing countries, especially in the thickly populated ones, land reform measures are most likely to result in the creation of small farms. Many of the newly installed farmers would be unaccustomed to taking managerial decisions or to planning any long range programmes of improved farming. It is neither in the interest of the well-being of these farmers nor in the interest of the community that this inefficient and stagnant state of farm economy should be tolerated without any attempt being made to bring it as near as may be possible to the stage where available technological and managerial skills can be most productively used. The immediate objectives of any plan of reorganization of farm units created by land reform must be, as mentioned earlier, to maximize employment, to enhance productivity and to raise levels of income. Anything that an individual farmer can do with his own land to attain maximum or at least near-maximum results in all these respects he should be free to do. But wherever for the best possible utilization of land larger units of operation and management than are represented by the average of existing or newly created individual farms are needed appropriate forms of group operation and group management must be found. Land reform would be no reform at all if it ended with perpetuation of a declining, stagnant or inefficient economy.

At a minimum, all the area which a beneficiary is entitled to receive as a result of land reform measures should be allotted to him in one consolidated piece, provided of course physical conditions indicate this as the most productive layout. Subject to the same condition cultivation blocks, comprising more than one farm if necessary, must be laid out where crop planning and common cultivation practices can be conveniently followed. Such technical and economic expertise as is available to land reform authorities should be used for the formation of such blocks. The farmers occupying farms within the blocks should then be encouraged freely to associate themselves in appropriate groups for an efficient and expeditious discharge of all the planning decision-making and operational functions of a joint character. It is more than likely that in the initial stages of reorganization and development active guidance and assistance from institutional and governmental sources will be needed in good measure. In countries where non-governmental organizations, such as cooperative federations, with requisite competence and public spirit are available, these may be given a major responsibility in initiating the more integrated and modernized pattern of farm management.

Land reformers ought not to be deterred from taking such necessary decisions about institutional structure by purely ideological prejudices, nor indeed must they pursue a course of action by reliance solely on an ideological prepossession. Land reform must prove itself by results, physical as well as human. By spontaneous pressure of immediate difficulties and opportunities farmers in several highly developed countries are accustomed to forming clubs, groups, committees and societies for attending to a number of essential common services. To the extent to which they join such associations they surrender their right to exclusive judgment, relying on the promise of common advantage. In developing countries where land reform often comes as an accompaniment or result of major social upheavals, where the common people generally and the common farmers in particular are unaccustomed to sophisticated and modernized operations, what little experience and competence is available to the nation must be deployed through organized channels so as to create in due course a farm economy which is efficient and progressive, and which at the same time answers to the principles of social organization which are accepted in the community.

Whereas first steps at reorganization are bound to be somewhat empirical, it is worthwhile consciously to undertake pilot projects of different types wherever this is possible. Experience of other countries may serve a similar purpose so far as physical factors are concerned, but the human factor is the great imponderable which each community has to discover and shape according to its own ideas and capacity. The human factor at higher stages of knowledge, and especially of economic status, has been known to be much more responsive to technological stimuli than at the lower levels of near subsistence. Reformers of agrarian structure should push forward with their developmental programme by the best available means, keeping in view all the time the goal of an efficient organizational structure which they desire to reach. Educating the farmers, honouring their individuality to the greatest possible extent and involving them in common decisions as their experience and responsibility mature are the ways which successful land reform programmes, such for instance as in Israel, have followed.

Judging from the experience of other countries as well—socialist, non-socialist and semi-socialist—it seems very doubtful whether one and the same pure pattern of farm management, cooperative or other, is likely to be found feasible as well as profitable for all times and places. Human psychology, social engineering and physical technology—all these are vital in determining the acceptable pattern of institutions. In recent years there have been great advances in all these, and the prospects are that the pace of advance will be greater in future than in the past. There is hardly any country advanced or less advanced, in which farming operations and farm management are not in some way or another changing their pattern. How to combine maximum economic advantage with maximum conformity to the prevailing principle of social life in each community is the common question. Answers to these will no doubt vary. But speaking for developing countries where sustained economic advantage can be hoped for only by the growing capacity of farmers to adopt for their own professional betterment the opportunities offered by modern science, a form of management in which the individual farmer is designed to play an important role must be put near the top of alternative choices.

Public authorities in developing countries have a special responsibility in the matter. Most doctrinaire supporters of alternative forms of organization have been shaken out

of their absolute faith in rigidly formulated norms. Those who neglected the individual's willing participation and creative enterprise as vital instruments of efficiency and progress are casting about for modifications of organization and practice by which these values may be restored. On the other hand, even medium-sized farmers in economies of free enterprise have come to rely on the protection and guidance of their own governments and they have shown themselves willing to be constituents of informal or formal groups which agree to act together. It should be part of the research and extension activity in each country to include farm management and farm organization, along with the familiar agronomical aspects of farming, in their normal functions. The results of such activity should be made freely available so that farm organization and farm management along with farm practices may be under constant review, and may be revised in time if necessary.

INPUTS AND INVESTMENTS

The hope of beneficial results following land reform is mainly centred, as observed earlier, on the prospects of larger investments and inputs in farm activity. Socially created investments are in a class by themselves and national and international sources must combine both to identify the most promising objects of such investment and to supply the means of carrying them out. But what the individual farmer or a group of farmers needs to do either to improve the long-term productivity of land, or to take supplementary steps to benefit from socially created capital sources like irrigation and power works, must be covered by his own capacity to find the needed capital. The whole effort of setting up small farmers as dependable participants in developmental enterprises is so uncertain that no private financier, certainly not one in a developing country, would agree to loan, long or medium term, funds to him.

The State may do, and has done, something in this respect. But apart from the paucity and fluctuation in the budgetary resources of governments in developing countries their capacity to judge the economic suitability of individual loans is never of a high order. Further, supervision of proper use of the loan and the follow-up of prudent disposal and orderly repayment are also very indifferently performed by governmental agencies. And even if all these difficult things were accomplished by a rare government, the farmer receiving aid or loan from government has little opportunity to develop a business sense of his own, which is vital to making him a participant in agrarian development. Governmental and institutional funds, to the extent to which they are available, must no doubt be made available for loans intended to improve productive capacity of farms. But the best way to do this is through organizations of the farmers themselves so that all stages of planning, executing and utilizing an improvement the farmer is required to exercise an independent judgment in cooperation with others who are similarly situated. The government's appropriate role in regard to investments on the farm is that of proper technical advice, and an effective liaison with the government department concerned.

It is obvious, and this has been proved by experience of land reform measures in several countries, that if the needed investment for participation in higher standards of cultivation is available only to a select few among the farmers, the process of development is severely arrested. Not only are the quantitative results much less than what they need or could be, but a new conflict of interests develops between the better equipped and

more progressive farmers on the one hand and the ill-equipped and inefficient farmers on the other. The economic as well as social benefits of land reform are thus sacrificed. The risks of discrimination, arrested growth and conflict of interests are all the greater in regard to current inputs. In developing countries supplies of new forms of producer goods needed by agriculturists are likely to be limited, and the financial resources with which to buy these on fair terms are likely to be beyond the current means of the smaller farmers. Unless appropriate cooperative organizations of all farmers are equipped with the means to buy, and with the supplies to be bought, there is no guarantee that even those inputs which the farmer has been exhorted to use will be available to him. A network of credit and supply organizations of the farmers themselves working no doubt on efficient and economic lines, but caring more for contributing to the rising efficiency of members than for highest terms of profit, is needed to ensure that the declared purposes of land reform are not frustrated by a lack of inputs and improvements through which alone the farmers could hope to participate actively in the process of agrarian development. To ensure that loans and supplies made to farmers are used for the declared and approved purposes some measure of guidance, coupled with supervision, would be necessary. In cooperative organizations some mutual supervision may supplement professional services of their own and of the governmental staff. No doubt such an organizational effort is both complicated and costly. It has also its own due share of uncertainty. But a community which hopefully takes to land reform as a measure of social and economic betterment for the generality of its population cannot afford to flinch from all these necessary steps.

As was mentioned earlier the process of overall economic development of a country creates a growing demand for the products of agriculture. It is this broadening of the market, and the incentive of profitable demand which are expected to act as a spur to progressive and enterprising farmers. To make this hope a reality for the large body of farmers who are willing and able to participate in improved methods of agriculture both for obtaining their own supplies, and for disposing of their produce they ought to be as near to their main markets as possible. Singly, small farmers cannot be in a strong position either as buyers or sellers. They must combine to pool their demands and their supply. Even combinations of small farmers cannot be free from the obligation to do business as business should be done when they deal with other business agencies. But the incentives and benefits of expanding markets can never reach the small farmer except through cooperative organizations of the farmers themselves.

Whether it is supply, credit, marketing, processing, or any other economic or developmental activity, it is not contended that putting them into a cooperative form would easily solve any major difficulty. The usual difficulties of organizing such business among small farmers will always remain to be faced. The parties which have chiefly to face them are naturally the farmers themselves. But those within and without the nation who pin their faith on a land reform which, in many developing countries, brings into being a large body of small farmers, in the hope that they will be the architects of their own and their nation's development must also do their bit. The most economical, and the least unhelpful if not the most hopeful, method of helping the farmers is to help them help themselves. That is the crucial contribution of cooperation to land reform in developing countries. At least for developing countries, it can be said with justice that unless tenurial reform is accompanied by a major structural and institutional change, of

which farmers' own organizations, such as cooperative organizations, are an important part, the developmental purposes of land reform can never be fully realized.

EVALUATION

There are some special projects of correcting the imbalance between available area of usable land and the number of people needing its use. When the pressure is very acute in some parts, as in Java in Indonesia, and there are good inhabitable areas which are sparsely populated in some other parts, as for instance, in Sumatra it is natural to think of transmigration from the former to the latter. Even in settled areas, when a new major transformation of productive resource as by an irrigational or hydro-electric scheme takes place an opportunity for recasting the whole, or at least the major part, of the socio-economic pattern of the area presents itself. In either case almost all aspects of human activity are involved. Uprooting and replanting of human communities is an adventure which has its risks as well as advantages. Most of the developing countries are tradition-bound, and the inertia and the attachment to familiar surroundings of their people are more pronounced than they are in the newer countries. They are not likely to think of deliberate mass transformations very easily. They would also lack most of the technical and financial resources needed for the planning out and execution of such developmental and rehabilitation schemes of vast proportions.

Such experience as has been gained by "colonization" and "recolonization" schemes in all parts of the world deserve to be studied by competent teams of researchers. The findings of such teams may be of great assistance to developing countries in launching on a more promising pattern of agrarian development, than conventional land reform, which they have only indifferently and half-heartedly followed hitherto. The several U.N. and international agencies interested in the subject would be helping the development of agrarian economies by entering this field of assistance much more energetically than in the past.

Almost all developing countries have some areas which are not only undeveloped, but which are inhabited by people who still preserve a culture which far antedates the one prevailing in the other areas of the same country. The approach of residents of the more developed parts towards the residents of the less developed parts, and towards the utilization of their potential resources are matters of great moment for both, and in fact, for all humanity. Human justice as well as economic need indicate the urgency of accelerating the all-sided progress of the people of the undeveloped regions. It is through their progress, and through their active participation in the new agrarian and social life, to be created in the course of further development, that the greatest contribution of their human and physical resources to the welfare of the rest of the world can be legitimately expected. While primary responsibility in this matter would fall squarely on the people of the more developed parts in the same country, people in the more developed nations of the world cannot shake off responsibilities arising out of a genuine interest in the welfare of their fellowmen who have been left very far behind in the onward march of human civilization.

These are somewhat special areas of large-scale transformation of the pattern of land use, and a continuing study, information and advisory service in regard to them is a responsibility which must be located in appropriate national and international organizations. But even with regard to the more familiar field of land reform measures it is

very desirable to institute both current evaluation, and a periodical review of the progress of several steps which are purposefully adopted. Timely precautions and changes in method are preferable to an uninformed feeling of frustration followed by general apathy. In this respect it is of importance to note that especially in developing countries which are subject to major climatic fluctuations short-term observations may not necessarily indicate a long-term trend. This is true of some other social and administrative experiences as well. But given competent personnel in the evaluation organization these limitations of current evaluation can be easily taken into account.

Major changes in technology and in the broad social and industrial spheres as in respect of population and industrial employment may alter the whole assessment of the influence of land reform measures on agrarian development. Prominent examples of Japan and Italy indicate the nature of altered assessment on important aspects of land reform, such as the owner status of the farmer and the size of ownership and cultivation holding. Not all developing countries are at the same stage of under-development or of development. Each nation must learn by watching its own progress and that of other comparably situated countries. If evaluation services are set up in all countries undertaking land reform, and if the international agencies continue to support them in suitable ways, the developmental merits of land reform measures can be more effectively secured.

Not all the developing countries suffer from a handicap of limited land area. Others have extensive lands which need more of developmental attention than of redistribution among individuals. In both cases, however, the impact of fast developing agricultural and allied sciences is in the direction of enhancing productive potentialities. In the economic sphere the limits of exchange are almost as wide as the whole world. How to maximize the advantages of land use in each country in relation to the opportunities offered by advancing science and broadening limits of exchange is the problem to which land reformers have to address themselves.

An Approach to Agrarian Reform

SUSTAINED and integrated action in the field of agrarian reconstruction and development represents an outlook which has to take in the whole social and economic structure of the community. Concepts of property, equality and community have to be uniform in a society if their application is to be assured of widespread and continued acceptance by the people. Area-wise action taken in the rural sector has its repercussions on the life of urban areas, and programmes of rural reconstruction cannot be planned with any assurance of success unless appropriate movements of a supporting nature are expected to take place in the urban sector as well. Subjects like pattern of a unit of production, or the maximum size of private possession of means of production, or of the responsibility of the state to ensure by its action any of the economic and social objectives of welfare and progress have to be common to the whole nation. The affairs of a small select colony may perhaps be ordered in a manner which is special to itself, without entailing issues of overall policy. But the consistent pursuit of an agrarian programme for the nation as a whole, or for large tracts of it, is not possible unless it conforms in essence to the generally accepted social and economic policy of the state.

Not only have reform and resettlement projects in the rural and agricultural spheres to conform to overall objectives and policy, but in particular the role of agriculture and other rural pursuits in the total programme of national welfare has to be at least broadly enunciated before specific action affecting possession and use of land on a long-term basis can be taken. Whether it is by effective action on the part of concerned groups of rural interests, or by an overall national effort at deliberate planning the role of the agricultural sector in national economy has to be specifically defined. In the unplanned economies of individualist enterprise, and even in reputedly planned communities it has often happened that, for organization as well as for welfare, the fortunes of the rural sector have been allowed to fluctuate in the interest of what was expected to prove an overall achievement. Such incomplete integration of agricultural economy into the main current of national economic development has produced conditions of instability and comparative backwardness in the life of the rural people which is common to many countries. Where special efforts are made to reorganize the basic conditions of the

occupational and social life of the villagers, as in land reform and settlements, it is seen to be difficult and in fact risky to move without ensuring some degree of harmony between the programmes chalked out for agriculture and those designed for national economy as a whole. For the individual farmer or settler, as well as for the nation, the whole economic calculus of a programme for reformation would be upset by its failure to conform to the implications of the overall economic programmes of the community. It is not possible to decide merits of proposals like subsidies to farmers, or assuring a price for their products, without knowing what the position of agriculture is intended to be in the general plan of national economic development. That decisions in such matters have in many cases to be taken in advance of their actual implementation makes a basic integration of policy all the more essential to the success of any programme of major reconstitution of agricultural economy.

At least as important as the material and economic balance between objectives of the agricultural plan on the one hand and the non-agricultural and total national plan on the other is the institutional pattern through which these objectives are sought to be realized. In such a pattern of institutionalization it is not only the relationship of the individual to the state which is to be specifically determined. The whole series of individual and corporate patterns of operation has to be judged for their suitability as aids to programmes of development. For the large part of the world lying outside the socialist group of countries it may be said that state responsibility for ensuring equal opportunities of realizing individual welfare by individual effort is generally recognized. In these countries the broad assumption is in favour of free individual action in support of choices voluntarily made by citizens. The variety and extent of state action needed to create overall conditions of success for the working of a free economy constitute by themselves a fairly large and growing volume of governmental measures which have become synonymous with the welfare state. But under the promotional and protective influence of the welfare policies of the state a variety of patterns of individual action have grown. Single individuals, small associations of individuals, big corporations and cooperative groups are the different forms in which in non-socialist states welfare policies have been utilized by people for their own betterment. While a general preference for individual and corporate action has been in evidence, the claims of cooperative action, or of state action in support of cooperatives, have been differently assessed in different countries.

For the success of land reform and settlement in the older and underdeveloped economies this difference in approach is very significant. The beneficiaries of these programmes are in most cases individuals possessed of limited resources. The condition out of which they are sought to be freed is one of dependence on better equipped individuals, whose immediate interests are in many cases adversely affected by reform measures. A legislative reform even when it is accompanied by some financial and administrative support is ineffective unless a sufficiently vigorous effort at creating alternative institutions which would supply the needs of the newly emancipated people are set up. In the absence of such action reform measures are not only ineffective, but in fact they ultimately strengthen the very groups from whose unchecked action it is sought to release the dependent people. Some alternative institutions have, therefore, to be thought of as accompaniments to agrarian reform measures, especially in the older economies.

Of the three alternatives, State, private trade and cooperatives, reformist governments have in the initial stages tended to emphasize state action. This is only natural.

Apart from the protective urge of a zealous benefactor a reformist government would be led to take extensive action in view of comparative resourcelessness of the individual beneficiaries and of unhelpfulness on the part of older agencies. State action on this scale is, however, out of keeping with the overall policy of individual freedom. In any case, and especially with governments of underdeveloped countries, demands of an actively welfare and developmental state get beyond the resources of government. If this stage has been foreseen from the commencement of the reformist programme some alternative choice has presumably been made. Where reform measures have been taken without much foresight or planning a check is put on the progress of reform by exhaustion of resources, and old institutions either of ownership, or of trade, or of finance tend to re-establish themselves. In a few cases making the beneficiaries of reformist measures strong enough to be able to bargain with possessors, suppliers and dealers in an object of deliberate policy. But in the majority of cases a state of dependence is reached by sheer exhaustion of public resources, and by the absence of any planned programme of setting up another non-governmental agency which can be trusted to act in conformity with the declared objectives of social policy.

In the sphere of institutionalization accompanying land reform and settlement cooperative institutions play an important role. Self-help, freedom of choice, associated action among persons having common interests, and the democratic value of self-management are best promoted by cooperative action. It is, therefore, not surprising that in most reformist programmes, cooperatives play an important role. But the extent to which the effort at building cooperatives is backed by comprehensive and sustained action varies from state to state. A part of general resourcelessness from which dependent people suffer is the lack of competence for running organized institutions. It is both illogical and unfair to expect that once the serfs or small tenants, or landless workers are endowed with a tenure status they will be able by themselves to run cooperative institutions. They have to be helped and trained to be good farmers and they have to be equally assisted and educated to be cooperative businessmen. Such a firm attitude on cooperative development pre-supposes a strong faith in the social and economic merits of cooperative action among people who form the base of the national structure. This faith is a variable feature from country to country. It is, therefore, natural that the land reform and settlement programmes round the world are unevenly supported by cooperative action among their beneficiaries.

With land reforms and settlements, but especially with land reforms, it is well-nigh impossible to attribute changes exclusively or specifically to their operation. Incentives, opportunities and institutional aids which may have their origin in factors unconnected, or only partially connected, with the reform measures may come to play a decisive part in shaping the nature and extent of change. It would be most unusual that a land reform measure will not bring about any change at all, though such situations are not altogether absent. Legislative measures which are not followed by sufficient emphasis on enforcement have been known to leave the situation almost unchanged. Leaving out of consideration such cases of abortive efforts at reform, as a rule land reforms would initiate some real change of status, incentive and opportunities from which tangible results should follow. These results in production effort as well as in levels of living should be capable of measurement. But the effort at measuring these changes and of isolating such amongst them as can be traced mainly to land reform

measures would constitute a programme of survey and research which can be undertaken only by a research team, preferably one organized as an institution which would keep in continuous touch with the movement of change. This is especially true of the identification and measurement of long-term changes for which the proper mechanism of a base-line survey, followed by a periodic series of resurveys would have to be provided. If social policy in the sphere of land reform is to be properly evaluated and deliberately guided such surveys would appear to be desirable and necessary. These could most appropriately be provided by national agencies, though expert organizations at international level can use them for an overall assessment.

At present material which can be considered to be either suitable or adequate for the study of land reform and colonization measures exists in only a few cases. For the rest existing sources supply only a general background against which an observer can only hesitantly present his own impressions. That these impressions are, in the individual case, which have been observed, substantiated by some quantitative data and by personal interviews makes them a little more realistic. But in the best of circumstances they must be treated as offering no more than a hypothesis for analysis and judgment, which needs further verification by more intensive study before any programme of action can be based on them. Unless this caution is observed it would appear to be presumptuous on the part of a visiting student howsoever trained, experienced and careful he would be, to pronounce judgments and offer suggestions on matters which have been the subject of sustained national and international effort for decades. What is offered here is in the nature of a qualitative appreciation of the experiments and experiences observed in several countries more as examples of trends in varying circumstances than as sample studies from which any estimates may follow.

Even in the most advanced industrial societies which derive a large and an increasing part of their employment opportunities and national income from non-agricultural pursuits, agrarian problems constitute a vital part of national policy. In a developed state of industrialization agricultural problems tend to be treated as of strategic significance, inasmuch as the agricultural population offers a market for industrial products and constitutes an important claimant for a share in national welfare. The role of agriculture as supplier of food and raw materials is also of great importance, though the opportunities for obtaining supplies by international trade tend to diminish its uniqueness. In under-developed or developing economies the position occupied by agriculture is crucial, not only strategic. It is principally by the transformation of agriculture into a system of higher productivity that the ultimate end of building a technologically progressive economy can be reached. Even in terms of the welfare of the population engaged in agriculture, its share in the nation's sum-total of wealth constitutes the main criterion of overall assessment as the agriculturally-employed population represents a large majority of the whole nation. In course of time industries and industrial populations would attract more attention, but to initiate industrial change and to distribute its advantages widely among the people agrarian progress, technological as well as social, would appear to be essential.

Agrarian reform in this broad sense has always been a significant precursor and accompaniment of industrialization. An assessment of its several forms and stages is, therefore, of great significance in guiding policy. Individual as well as collective

action has been the main instrument of change in this sphere. But even in areas where the greatest achievements of private effort are to be seen, the State by its legislative, and often executive action is seen to have created favourable circumstances for the success of non-governmental agencies. Agrarian legislation and agrarian reform are spheres of public policy which are co-extensive with the whole life of those for whom access to land as a means of cultivation is of prime importance. In all countries, over the centuries, a mass of law and custom has grown which determines the possession and use of land. In communities which for their occupational opportunities have to depend on a decreasing per capita extent of land as an important feature. In areas where cultivable land is still in agrarian colonies. Land reform and land settlement or colonization are thus the core of a process of agrarian development, which in turn, derives its strength and justification as a prelude and accompaniment to the process of overall industrial development.

Historically land reform had its origin in a recognition that important sections of the community earning their living by work on land were specially handicapped by established rights of superior interests. In countries where the pattern of landownership was of a political or administrative character, giving to the owners a right to farm out their lands for a rental, reform of landholding initially took the shape of protecting the rights of tenants. The content of tenancy reform as distinguished from the wider concept of land reform, may still be adequately summarized in the form of the famous three 'Fs': fixity of tenure, fairness of rent, and free transferability of interest, that is of any permanent improvements made by the tenant with his own resources. For a long time, the attention of land reformers was concentrated on this type of protective action, and in countries where the normal course of economic development brought about a fair balance between the agricultural and non-agricultural population social purposes were satisfactorily met without any more fundamental change.

But in countries where the pattern of land ownership was of concentrated farming by big landlords tenancies were not the prevailing pattern of cultivators' interest. Even when some form of share-cropping was permitted the status of the share-cropper was more akin to that of serfs, who worked directly for and under the landlord and his paid agents, than to that of tenants, who have a position of contractors or enterprisers. The lowly state of the cultivating dependents on large estates could be corrected only by conferring upon them rights of ownership to some specific piece of land. Even in countries where tenancy reform was considered as an adequate first step, it often happened that by the increase in numbers of the agricultural population in excess of what the cultivable portion of land could support the concept of contractual obligations between the very few owners and the vast number of small tenants became less and less realistic. If the pace of industrial development is slow and the rate of population increase is high rights of ownership in land come to possess a contractual value which though high economically is apt to be rated low in terms of social justification. That the area of cultivable land cannot be easily increased, especially in economically less endowed communities, makes the right of private possession look more and more indefensible. With the traditional concept of law or without it, the bargains which are made in these circumstances between owners of land and tenants tend to be of an unfair character. To restore a balance of social and economic advantages it becomes necessary to think of a more fundamental measure than one of mere tenancy legislation.

Thus improving the status of the actual cultivator by conferring upon him title of ownership, so that he would have access to a definite area without having to share the product of his labour with one who makes no physical contribution towards the farming effort, becomes necessary. By and large, land reform is held to be synonymous with provision of land to the large body of cultivators on an ownership basis. In countries where large tracts of unclaimed land are available for cultivation, award of ownership plots to farmers can be brought about without dispossession of existing owners. Such situations are, however, rare and where they exist they call for organized programmes of colonization which have to be thought of in the light of wider social and economic objectives. For the most part, land reform has to be thought of in countries where there is heavy concentration of land ownership accompanied by large scale dependence of the population on agriculture. In these circumstances, land reform almost necessarily takes the form of redistribution of ownership rights.

It should, however, be noted that the redistributive part has its justification in securing better conditions of employment. This has a two-fold significance. By having a proprietorship title the cultivator is freed from having to make those payments to the landlord which had their origin not in any service done by him for improved cultivation, but were more or less a pure rental, a licence payment determined by auction. As a sharer in produce of his effort spent on the given piece of land the new owner would have a better opportunity and this would add to his income and presumably help to raise his standard of life. This aspect of land reform is obvious. Equally important, though less obvious, are the incentive and the opportunity created by land reform for the cultivating farmer. As he has no longer to surrender a sizeable part of the output to someone who has made no tangible contribution to raising it, it is normal to expect that the cultivator would be encouraged to go all out to increase his output so that he may earn more and live better.

Such a psychological uplift is possible, in any case is materially fruitful, only when opportunities for productive use of labour accompany a measure of land reform. It has been said that the first effect of land reform is in many cases to reduce opportunities for productive use of labour, rather than to increase it. This view is based on the assumption that the dispossessed landlord was making some contribution to cultivation which is discontinued as a result of dispossession, and that where such discontinuance has taken place, it has not been counter-balanced by at least an equal additional effort on the part of the new owner either out of his own resources, or out of resources placed at his disposal by some other institution. Indeed there are many instances where such uneconomic results have followed the introduction of land reform measures. On the other hand, supporters of land reform have been quick to realize that the psychological release which new conditions of ownership gives can and must be used to a productive purpose by augmenting the resources and opportunities available to farmers.

In fact in several countries where the pressure on land is by no means heavy, land reform is coming to mean a programme of offering inducements to farmers, especially to small farmers, to remain on land. This is possible only if the productivity of land is raised to a level comparable to that of alternative non-agricultural pursuits. While, therefore, a redistributive and a welfare object is inherent in measures of land reform it is being increasingly recognized that this object can be served on a firm and improving basis only if adequate steps are taken to augment the opportunities for pro-

ductive use of land and labour available to the new farmers. Not only more equal distribution but also more productive utilization of land is now recognized to be the proper content of land reform designed to maximize the welfare of farmers.

In the process of land reform, it is only natural that attention is first attracted by intermediary holders who do not appear to play any essential role in the function of farming. Such holders of ownership rights are easily dispossessed without causing serious social or economic dislocation, though problems of the size and manner of payment of compensation have to be faced. Where the land owners play some part in cultivation, either of a direct or indirect nature, questions of instituting a ceiling, that is a maximum limit, of ownership arise. The ceiling may be based on the concept of an optimum production unit, or on that of a unit which would provide to the holder a decent living, or it might be based on a purely expedient consideration as to how much can be taken away without causing serious social discontent, or alternatively, how much must be taken away so as to create at least a sizeable pool for distribution among legitimate claimants. According to the circumstances of each country one or the other of these considerations tends to prevail.

There is, however, a balancing social objective which has been in evidence. As the merits of better utilization of land as a constituent of land reform come to be better recognized the breakup of a big farm, estate or plantation which is obviously run on efficient and progressive lines purely on the basis of a quantitative measure is not treated with equanimity. Exceptional treatment of such farms is in some way and in some cases held to be justified. If the farm is left with present owners standards of progressive and efficient cultivation, coupled with safeguarding of the legitimate claims of farm workers, are prescribed as a condition of tenure. If the land is taken away a breakup of the farm and lowering of the standards of its cultivation are sought to be avoided by transferring it to a group who may, with suitable assistance, jointly farm it on an efficient level. If the beneficiaries of redistribution are from among the workers on the farm and if their access to the means of efficient cultivation is not disturbed no serious lowering of standards of cultivation observed in big and efficient farms is apprehended. It is, however, interesting that some preventive or ameliorative action in regard to large-sized progressive farms has formed part of measures of land reform.

One direct implication of the process of dispossession at one end and re-conferment or re-institution at the other end is that the concept of land-ownership is treated in a historical, social and functional manner, without paying too great a heed to absolute or legalistic rights or property. The impress of this expedient, as opposed to a fundamental approach to rights of ownership is seen in the tenure under which rights of land use are conferred on the new holders. It is true that in a general manner the rights of the new holders are described as ownership or proprietary rights. But they are hedged by so many special circumstances and conditions that they are no longer a mere replica on a smaller scale of the rights which were expropriated. The very fact that they are the creatures of state action taken in support of a new social policy, and in contravention of established rights, gives to the new holders an essentially beneficiary status, which can only have a social and functional justification. Whether the new rights are to be conferred on individuals or on groups, whether they are to be in respect of specific pieces of land or whether whole areas like villages have to be vested in com-

munities are issues for which the answers are sought more in social than in legal terms. Nor that concepts of legal or prescriptive rights are excluded. But these are more the form than the substance. Expediency in the social interest is the substantial motive force behind most of the land reform measures adopted on a large scale.

The underlying purpose of land reform is both social and economic. That access to the essential means of agricultural occupation should be widely distributed is its starting point. In many cases this urge fulfils or exhausts itself with the mere act of redistribution of ownership or possessory rights in land. In a few cases where the urge to equality is deeply ringed with ideals of corporate life based on a higher concept of non-discriminatory common possession the ideal of land reform has reached its height in the setting up of real cooperative or collective commonwealths, such as the Kibbutzim in Israel. But quite obviously in this development much more than mere land reform, or for that matter even more than sharing of material advantages, is involved. But other forms of joint ownership or of joint operation following on land reform measures have occasionally been promoted in the best interests of maximizing welfare.

In so far as land reform is a means to an end, the end of maximizing total welfare consistently with its equalitarian distribution, it entails several organizational features, without which the mere legislative or redistributive acts have no enduring significance. If the means of efficient production are within reach of an individual farmer his association with others becomes more an act of social choice than of economic necessity. But where conditions of agricultural production are such that individual operation except on a very large scale cannot be economical or efficient, the formation of associated groups of owning cultivators becomes a part of land reform aiming at maximization of welfare. Group tenures and group operation of land thus become relevant. Occasionally group or community tenures have a historical origin, which strengthens the urge towards vesting reconstituted rights more in the collective group than in the participating individuals.

Whether possession and use are joint or several, there are many aspects of successful and progressive utilization of land which have to be deliberately organized if land reform is to yield the positive results expected from it. The advantages of large-scale operation are not only technological, but they are also managerial. In the absence of the planning and guidance which comes from a big landlord the newly created small farmers are apt to suffer from a serious deterioration or stagnation of standards of cultivation. The research and extension services which are necessary and desirable even when land-holding is on a substantial scale become indispensable aids to efficient cultivation in the context of small-holders. Extension has to take in a wide variety of technical as well as operative and organizational features, ranging from the small difficulties of farmers in regard to individual crops, to the whole pattern of crops and the system of tillage.

Extension has often been identified as an educative or information service. As an accompaniment of land reform, however, extension has to be supported by more positive services. The most obvious is the need for supplies which as a rule would for quite some time after land reform measures have been initiated have to be supplied on credit. The assessment, provision, supervision and recovery of credit constitute a group of essential services to farmers which have been differently organized in each country. But it would be no exaggeration to say that the measure of success of even a well-

designed programme of land reform has varied strictly with the measure of efficient extension and credit. The technical or operational advantage available to small farmers have to keep pace with the progress of science and industry. Only an organized scheme of extension, which is well served at one end by applied research and at the other by an adequate service of supply can ensure this.

Under modern conditions production on the farm is mostly for the purpose of sale in the market. Successful agriculture, therefore, depends as much on strong bargaining position as on access to technically efficient means. In a few instances action by the state by way of price supports, procurement and protective legislation has ensured the advantages of a favourable market to small growers. Even when such measures have proved effective they can amount to no more than an act of protection. But if the full advantage of these measures to enhance the productivity and profitableness of agriculture is to be reaped by farmers, they must be organized on a more self-reliant, cooperative and enterprising basis. In fact in many states, where the unit of cultivation is not too small, it is for maximization of bargaining power that farmers have cooperated to build marketing organizations. With the best of protective policy on the part of the state unless farmers are well organized to hold their own in a balance of social forces their share in collective welfare would tend to be less than what is deserved by the measure and quality of their effort. In so far as land reform aims at maximizing the welfare of farmers these aspects have also to be kept in view.

All these effects, distributive no less than productive, have to be kept in view while evaluating land reform measures. It is not quite an uncommon experience to have a recurrence of a new set of intermediaries, after one set has been removed. Functionless privileges or excessive earnings by intermediaries tend to reodge in the social structure from which they have once been removed. A close study of the actual situation, as it changes from stage to stage, can alone reveal the existence of these undesirable trends. The conditions of employment of the farmer, his real earnings and the level of his living must be studied together to ascertain how far a land reform programme has succeeded in its purpose. Even where anything like a realistic appraisal of these effects is feasible, it would still be incomplete without reference to the employment opportunities of persons who are either left out or have been displaced. A qualitative success which is earned at the cost of leaving a large part of the affected group without adequate measure of attention, is only a partial achievement. It would pose a further problem which need urgent solution.

Conditions of acute unemployment and under-employment in rural areas have often caused a large and continuous exodus to towns. Wherever there is heavy pressure on land, this is an almost universal phenomenon. Such exodus takes place without much reference to employment opportunities in the urban areas. Conditions of widespread unemployment only partially relieved by some form of social assistance characterize the metropolitan areas of many under-developed countries. Agrarian reform has, therefore, to be judged as part of the total programme of economic development of the whole country. Curiously enough not only total under-developed, but even unbalanced development yields the same conditions of rural unsettlement. In many developed countries conditions of employment and earning in the rural sector compare unfavourably with those obtaining in cities. Levels and standards of living offer even more striking divergencies. The techniques of production are undergoing such rapid

changes that nowhere can the present arrangements in agriculture be treated as static. Capital formation, progressive technical changes and suitable organizational methods are continuing requirements of a sound rural economy. In the current context of science and integrated economic life land reform measures have to be judged from the standpoint of their efficacy as aids to the realization of the maximum rate of growth for the community as well as for the individual.

The merits of a pattern of land reform are not always primarily or exclusively traceable to physical or organizational factors. The clear enunciation of the values, social, moral or economic, in support of which a reform measure is being undertaken is necessary for its success. Even more essential is a faith and determination to realize these values. Reform measures entail so much destruction and reconstruction that unless the depth of appreciation and the vigour of promotional effort are strong and sustained, there is an ever present risk of surrender to half measures and to half-way stops. The realization of the claims of a changed order has to be so strong and sustained as to overcome these natural moods and stages of weakness, which have attended many land reform measures.

A very significant factor in the practical success of land reform is the effect which it has on the attitude and incentives of those who are favourably affected by it. For the new possessors of land and of the means to cultivate it on a higher standard of efficiency the reform should mean a veritable renaissance. With the best of material and organizational incentives a reform measure would fail if it does not promote a feeling of self-reliant and progressive living on the part of the individual. How to recreate and maximize the urge of individual initiative and economic incentive as part of a social system in which conscious community action plays an increasing role is a problem which faces society as a whole. This problem of reconciling social sponsoring with individual initiative and responsibility is not peculiar to the agrarian sector. Its special acuteness in the context of land reforms arise from the fact that a number of new individual units are created by an act of social reorganization which can, however, realize its best purposes only through self-reliant and progressive action taken by them, both individually and jointly. Experience in this regard is, naturally, not always as happy as authors of land reform measures would desire.

Planning for Plenty

THE poverty of India is great judged by the minimum requirements of civilized life. It is greater still in the light of what other countries have achieved in the field of material welfare. Our freedom to chalk out a policy for replacing poverty by plenty and to act on it is severely restricted by our political dependence, which in its exploitative aspect is also a direct cause of our lowly economic condition. These conclusions established by the founders of Indian economic thought have been echoed by all the later writers on the subject. The realization of this fundamental truth has, however, produced a widespread reaction which is opposed to the teachings of men like Ranade, Joshi and Gokhale. There has been a tendency to emphasize the political aspect of our national activity to an extent which threatens to be harmful to economic progress and ultimately even to the realization of our political ideals. The vital content of modern imperialism is economic and it is in the economic sphere that we must concentrate a large part of our renaissance effort.

It is easy to frame the situation as a vicious circle. Our industries and commerce cannot grow because we have no political freedom and our efforts at political emancipation do not succeed because we are materially too weak. The moral of the situation is, however, not one of helplessness both for political and economic progress. It is simply that we must maintain a sense of proportion in our efforts at exhortation and organization. It is no more truthful to say that we must win political freedom for economic progress than to claim that we must push on with economic development so that political freedom might be attained.

This mutual dependence has become increasingly obvious as the progress of science has revolutionized the structure of both industry and politics. Notions of absolute political independence are as much out of date as the old methods and forms of economic activity. Mutual cooperation on fair terms of bargain is necessary both in the economic and political spheres, and this cooperation extends to units within the nation as also to the nations themselves. A realistic outlook on problems of economic and political progress in the new world context would thus entail a reorientation of our scale of values, particularly with reference to Indo-British relations in the political sphere.

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International groupings in the political and economic spheres will be the order of the day even more prominently after the World War II than what they appeared to be after the World War I. The question of questions that we must now answer is how to take advantage of this new situation for promoting the all-sided progress of the country.

Voluntary membership of international associations which is forced upon a nation by pressing considerations of vital interests is voluntary in little more than name. Moreover, in spite of formal or constitutional reservations designed to protect the interests of weaker nations, their effective enjoyment of the advantages of international association is strictly in proportion to their material resources. The relative positions of such countries as England, United States, Russia, China, Egypt, Ireland, Canada and South Africa in the post-war world will be measured by the ratio of their material power. The debut of the United States in world politics and the rise of Russia to the position of a first-class Power are indications too glaring to be missed. We have, therefore, to take time by the forelock and to readjust the relative emphasis that we place on political forms and economic reality, which latter is the foundation of political reality as well.

An intensive and unified drive towards economic progress is thus the immediate task that awaits us. If national progress were a matter of simply conforming to outworn constitutional catchwords, there is little doubt that England, especially under direct and indirect pressure of American opinion, will be only too ready to recognize Indian autonomy more or less in the Egyptian or Irish style. But in the economic sphere greater caution is needed on our part. An attempt is bound to be made by British spokesmen to draw India into international agreements as per plans suitable to English interests. This was done after the last world war when India's membership of international bodies meant only a strengthening of Britain's position vis-a-vis the other members. As the unhappy history of Imperial preference would prove the same disregard of India's national opinion and interest was evinced in inter-Imperial organizations.

No amount of political adjustment can compensate for the loss of vital economic interests caused by such one-sided arrangements forced on the nation. Let us not, therefore, bargain away our economic birthright for a crumb of political sentiment. There is, however, another extreme attitude which is more probable but equally undesirable. Enforced association with Britain has to be resisted by all means, but this does not mean that where on merits association with Britain either by itself or with other countries within and without the British Commonwealth is to be shunned on sentimental or political grounds. Such subjects as currency agreements must be approached on their own merits. Whatever the politics or even the administration of the day may be, we must strive to keep the economic issue to the forefront, and with a thorough objectivity of attitude towards international association we must concentrate on improving the economic strength of the nation.

To develop the material resources of the nation was, according to Ranade, founder of Indian economics, the legitimate task of the State. Judged by the legitimacy of the functions of the State as well as by the special needs of the country, an active, purposeful and comprehensive plan of economic development should be the paramount concern of the Government of India. The State in India was not ready in Ranade's days to accept this position. It is a matter for satisfaction that the Government have

now altered their position in this respect. Recent speeches of the Viceroy and such important members of the Government as the Finance Member fully accept the responsibility of the State in this matter. It is also encouraging, so far as it goes, that official spokesmen recognize the primary importance of an agrarian revolution as an accompaniment to the more intensive industrialization of the country. Recently mild controversy has developed over the respective merits of an agricultural as opposed to an industrial bias in our plans of economic development. Such a juxtaposition of the relative claims of the two aspects of our economic life is both unnecessary and unreal.

There can be little difference of opinion as to the ultimate position of both agriculture and industries, including the heavy as well as the consumers' industries in the latter. All the teachings of Ranade were based on the great truth that the fatal weakness of all eastern civilizations was that they were predominantly agrarian civilizations. This evil has to be removed once and for all. While we ought to continue to make the best of our agricultural resources, we ought not to place any artificial limit on the extent of our industrialization. In fact, both for economic and political safety we ought to aim at building up in our own country all the essential heavy industries and such of the consumers' goods industries as are either based on local advantages or are considered essential for economic balance or military security. How much part of the productive resources of the nation should in a given period of the working of a plan be spent on agriculture, as distinguished from any of the other alternative avenues of employment, is a question which cannot be answered until an economic commission has surveyed the whole situation.

One aspect of all attempts at a deliberate control of economic activity has supreme social significance. So long as the State claim to do no more than keep the peace and enforce contracts voluntarily entered into it is clearly out of the field of choice respecting social ends. But as soon as by partial, extensive or comprehensive action the State deliberately assumes the responsibility to influence economic activity in a given direction it has also to assume responsibility for the ultimate social effect. Every action of the State in the economic sphere creates advantages which are accompanied by certain disadvantages. The relative distribution of these two among individuals as well as among classes is a matter for which the State in a partially or fully controlled economy can no longer plead unconcern. The distributional aspect over the shorter even more than over the longer period has to be carefully attended to if planning is not to result in exploitation.

The most profitable employment of all the resources of the nation must be the objective of conscious and planned economic policy. A survey of all resources of capital and personnel, of organization and technique, must precede the formation of plans. The financial is only the superficial aspect of constructive planning, which in essence is a technical and organizational effort. Mr. Joshi, among the earlier Indian economists, had a full perception of this truth and hence he had urged a comprehensive and realistic approach to the whole subject of planned industrialization. In fact, he had urged that the State should undertake the entire organization and direction of national effort in the economic sphere. While appropriate sectors of free individual action would be allowed to exist in so far as they secure the efficiency of production the broad aspects of the plan and the scale of technical organization have to be determined by the State for the nation as a whole.

We are at a stage of development where private capitalism has been shown up as a comparatively slow, wasteful and inequitable method of organizing an industrial society. If our choice then is in favour of a planned economy, we must be assured that on essentials it is the proper type of planning that we are having. In this context such considerations as the economic unity of the country and the nationalization of the governmental machinery are very vital. It is fair to assume that we shall have in post-war India an Indian Government. In the absence of such a Government, no more than an augmentation of departmental and capitalistic activity can be hoped for. Given such a consumption, which does not seem to be improbable, the planning which we choose as a conscious goal of our economic policy must be a national one. It is only such a full-fledged planning which will give full scope for carrying into effect the many valuable tenets of Indian economic policy which were laid down by Ranade, Joshi and Gokhale—stalwart pioneers of Indian economic thought.

Value in a Socialistic State

“PRINCIPLE of Pricing will remain unchanged even where the State is owner and director of means of production.”

“It is untrue that free competition is a theoretically necessary condition for giving effect to the principle of cost.” Gustav Cassel : *The Theory of Social Economy*.

“A socialist community would know exactly—or it would imagine it knew—what it wanted to produce. It ought, therefore, to set about obtaining the desired results with the smallest possible expenditure. But to do this it would have to be able to make calculations of value. They could not be merely technical; they could not be calculations of the objective use values of goods and services. This is so obvious that it needs no further demonstration.” Von Mises : *Socialism*.

A SPECULATION OF PRACTICAL IMPORTANCE

In what manner value will emerge and operate in a socialistic economy, is a question of considerable theoretical and practical importance. Theories of value that are known to us are forms of generalization based on past or present experience. They are mainly analytical. As the working of a socialistic economy is as yet neither widespread nor long-lived, one can theorize about value in a socialistic state only in a more or less speculative fashion. It is an essay in projecting the known into the unknown. The effort, however, is bound to be helpful in perfecting our knowledge about value.

The practical urge towards defining the operation of value in a socialistic economy is even greater than the theoretical one. A substantial socialization of the means of production is no longer a distant ideal or a cherished or dreaded (according to one's stand-point) dream but a quickly unfolding phenomenon. Wars and depressions have proved even more potent than socialist propaganda. A study of the probable behaviour of the basic economic factors in a socialistic state is no more than timely at the present moment.

As the extracts given at the head of this paper would show, eminent economists are inclined to take the most divergent views on the subject. While for Cassel no special problem of pricing exists in a socialist economy, as distinguished from a free or capi-

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talist economy, for Von Mises every step away from the private ownership of the means of production is a step away from rational economy. Faced with such a sharp conflict of opinion, we can only proceed from known fundamentals to probable, hitherto unknown, situations.

NATURE AND FUNCTION OF VALUE

Value is the ratio of our marginal preferences for the goods. Non-economic preferences that is likes and dislikes which do not result in a balancing of satisfaction earned and cost or disutility incurred, are not correlated by a value ratio. It follows, also, that likes and dislikes for objects that are not economic goods, either because they are inaccessible or because they are abundant, do not form the subject-matter of economic valuation.

As value is a ratio of our marginal preferences, it serves a very vital purpose as governor and guide of all economic activity. Given the means, a consumer tends to spend them in such a way as to equate marginal satisfaction from all his expenditures. By having to pay more for what satisfies him more, and by being called upon to pay less for what satisfies him less, the most economical disposal of the consumer's resources is promoted. On the other hand, the supplier finding it more advantageous to supply that which is in greater demand, in preference to that which is less, has a ready index to guide his activity. A balance between total outlay and total satisfaction, both collective and individual, is thus induced by the operation of value judgments on the part of consumers and producers.

There is another, more indirect but not less vital, function that value has to perform. Given the consumers' resources, their demands and the latter's influence on value, a producer can resort to that method of production which is most economical with reference to a given price level. The prices of factors of production, judged in the light of their productivity and the anticipated valuations of their products at the hands of the consumers, are a helpful guide to producers. What factor should be used at the margin in preference to another, is decided by the ratio of costs to be incurred for their acquisition and the additional price to be realized by the sale of the products. The correlation between several sets of anticipated prices and costs helps, from the producers' and the community's stand-point, in the most economical use of all available resources.

VALUE IN A FREE OR CAPITALISTIC ECONOMY

In respect of the technical importance of capital, as compared with other factors of production, all civilized society is capitalistic. But the social domination of capital arises out of private ownership. Even communistic society is, in a sense, capitalistic if it uses capital on a large scale. It is, therefore, better to contrast unregulated or individualistic against controlled and socialistic economy. By long usage, however, the former has come to be described as *the* capitalistic economy.

In capitalist economy supply is adjusted to demand through price. Any disequilibrium is corrected by the reaction of profits on supply. Hence there is a general tendency towards an equilibrium between prices on the one hand and the relevant effective demands and available supplies on the other. Prices indicate the ratios of marginal preferences, therefore, are mutually dependent and no one preference can stand alone without affecting or being affected by other preferences.

Given the tastes and earnings of people, it is true to say of a capitalist economy that for all articles and services that are exchanged on a market, such a price tends to establish itself as equates the effective demand to the available supply. The services even of the factors of production are not free from this 'Law' of general equilibrium. Given the state of technological progress, such a level of earnings tends to establish itself in respect of each factor as tends to equalize the supply of that factor with the demand for the same. Not only the satisfactions of consumers but the employment of productive factors is thus regulated by one and the same principle, that of value.

In regard to this general principle of value in a capitalistic economy, two things must be specially noted in the present context. The statement of a tendency towards a general equilibrium assumes the existence of a competitive market. To the extent to which non-competitive markets are a feature of capitalistic economy, deviations from an equilibrium among prices, supplies and demands become a normal and not an exceptional feature of the economy. In the second place, the factor market is so much influenced by the institutional life of the community that the influence of prices in the direction of securing a most economical adjustment between demand and supply is far from assured. Except within the narrow sphere of marginal substitution, the supply, productivity and utilization of factors are matters for which dependable calculations cannot be easily made. Not only the supply of workers, but to some extent of all factors of production is highly institutionalized, and to that extent partially withdrawn from the sphere of economic calculation and employment.

WHAT IS A SOCIALISTIC STATE ?

The element of the unknown with regard to the form and significance of value in a Socialistic State begins to assert itself from the very outset. What is a Socialistic State? Is complete abolition of private possession, of free choice or of money a necessary feature of socialist economy? In some of the Utopian or purely idealistic schemes of social reformers a complete socialization of wealth and its distribution according to some common plan has been thought of. It is, to say the least, doubtful whether even such a communistic society may not be required to use some tokens of account which would correspond to money. It is, however, more important to note that a community can be socialistic without the complete abolition of private property, free choice and money.

A community which allowed the possession of wealth but disallowed its use for production would justly be called socialistic, though not communistic. It is equally true that a socialistic community without the sacrifice of any essential principle may allow perfect freedom of demand to the consumer. It must be recognized that faced with a single supplier of all goods the actual freedom of demand enjoyed by consumers will be liable to a serious restriction. Such a restriction is, however, likely to arise more out of the non-economic than the economic objectives of the supplier. Economically, the existence of a Socialistic State is compatible with the toleration of free demand.

What applies to demand is equally true of employment of labour. While all means of production must necessarily be collectivized in a socialistic state, the special position of labour has to be recognized. Labour is not only, and, at any rate in a socialistic society not primarily, a factor of production. The human members of a community

exist for realizing a certain standard of collective and individual life. Having to contribute their personal labour for the creation of the means of such life is mostly a subsidiary activity. With a view to preserving the non-economic values of the community, freedom of employment may be conferred on its members by a socialist state.

Whenever employment is free it becomes economically necessary to adjust the supply of each kind of labour to the demand for the same. Such non-economic means as propaganda or training might be followed to gain the economic balance between the various types of services and the need for their employment. On the other hand, it is conceivable, and in fact very probable, that a socialistic state will find it necessary to rely on remuneration or pricing of services as a method of stimulating or retarding their supplies.

As has been observed above, even a purely communistic society will, in all, probability, feel called upon to constitute some tokens of calculation. The use of such tokens will become all the more unavoidable, as the elements of free possession, free demand and free employment are to any extent tolerated. In fact, in an important measure such an economy would necessarily be an exchange economy, in which the problem of value tend to rise very much in the same way as in the capitalist economy more intimately known to us.

It will thus be seen that the only essential feature of a socialistic economy is the denial to all but the state of the possession and direction of the means of production. Any concession made to private parties on the score of the productive use of their possessions would detract from the socialistic character of an economy. But an economy may justifiably claim to be socialistic while yet tolerating free possession, free demand, free employment and a more or less unrestricted use of money. A socialistic is necessarily a collective, but not unavoidable, a communistic state.

COLLECTIVE GOODS

All goods are collectively produced both in a socialistic and a communistic state. But while in the former some goods at any rate may be freely, *i.e.*, competitively or individually, consumed, in the latter none are left to be so consumed by the members of the community. The State prepares the demand schedules of all its members and proceeds to supply these in the manner that it considers most economical.

In the absence of free exchange the most economical production has to be objectively or technically determined. Here comparable limits of calculation, such as money equivalents for prices and costs, are indeed absent. But this is not to say that there is no check on the errors of technical or positive calculations. A perfectly communistic economy would be no better and no worse in respect of economy of production, distribution and consumption, than a family or clan is. The scale would be immensely greater, but the principle of adjustment between effort and satisfaction would be the same. And the principle would be a very rational principle, though it may not be reducible to any comparable units of measurement, *e.g.*, money.

The securing of equi-marginal returns for all the outlays of the community's resources would be this principle. If after a certain disposal of productive resources, the controllers of social economy feel that the satisfactions that they have foregone on one direction are not sufficiently balanced by satisfactions earned in another, there would be cause to readjust the disposal of factors. This process of re-adjustment among

alternative uses of scarce means would go on till the state of equi-marginal satisfaction is reached. Like the general equilibrium in capitalistic economy this stage may in fact be never realized. But it would still continue to be the norm to which all economic activity of the community tends to gravitate. This would be rational enough.

Even a purely communistic economy may thus attain the purposes of economic life. But this would happen without the emergence of the problem of exchange value. A communistic society may *value* something more than others, and may, therefore, be prepared to incur greater cost for acquiring the former. Value in the sense of a scale of preferences will certainly exist in a communistic society and will guide economic activity, both in consumption and production. Value, however, as a ratio of individual preferences cannot obtain under communism, as there is no free exchange of goods or services. Society like a great family will continue to organize its economic activity on the basis of a direct knowledge of sanctioned wants, available resources and alternative methods of utilizing them.

To the extent to which a socialistic community provides for collective consumption, production being in any case collective, the problem of securing equi-marginal satisfactions would be tackled institutionally, *e.g.*, without the interference of pricing, which is a concomitant of an exchange economy. The selection as between one method of producing a given supply and another will, in this context, have to be made in the same way as under communism. Technical estimates and comparisons will have to be made. Where the resources are not directly comparable either quantitatively or qualitatively, the test of efficiency will be supplied by the resulting total satisfaction yielded by all productive acts.

A factor spent more in one act is so much withdrawn from another. An additional satisfaction is pitted against a foregone satisfaction. If the total disposal of factors produces a sense of maximum satisfaction under all headings—a state of equi-marginal satisfactions—the purposes of economical production are served. To the extent to which a feeling of frustration emerges on account of an ‘uneconomic’ diversion of a given factor the same can be corrected by a fresh distribution of resources. Not by knowledge gathered through price, but by information of satisfactions directly known, the most economical method of producing collectively consumed goods can be developed in a socialistic economy.

FREE GOODS

In a socialistic economy all goods need not be collectively consumed. In fact, there will be a tendency to maintain on the unrestricted list open to individual buyers quite a good number of articles or services. The division between collective and individual consumption will not necessarily follow the line dividing necessities and luxuries. So far as demand is free prices will tend to conform to the well-known principles of monopoly value. In outlining the behaviour of value in this field the influence produced on prices by the currency policy of the State is kept out of account. Whether a socialistic state may have the same objectives and methods of currency management as a capitalistic economy, is a separate topic of discussion. In the present connection we assume that currency management is neutral as a force controlling price variations.

In a socialistic economy supply is at once joint and monopolistic. In so far as the supply is monopolistic, prices will tend to wipe out a large part of consumers’ surplus.

In so far as the supply is monopolistic, prices will tend to wipe out a large part of consumer's surplus. In so far as merely economic possibilities are concerned not only would consumers' surplus tend to dwindle, but its position as a joint supplier will strengthen the hands of the state in any economic discrimination that it may desire to pursue. Discrimination and hard bargaining may in fact be not indulged in, but this would depend on what social policy the state desires to follow. Prices in a socialistic economy are liable to be very greatly influenced by the social policy of the state. Hence anybody interested in promoting the best economization of the community's resources in a socialistic economy must assure himself that the controllers of social policy are not only wise but are also communally minded.

In a capitalistic economy a monopolist fixes prices with reference to the prospect of maximum profit. Profit in the crude sense of a private earning secured by manipulating supply will indeed be absent in a socialistic economy. It does not, however, follow that the State will itself not try to create as big a surplus for itself as possible, maybe for quite laudable ends. These ends being given, all socialistic economy will be run in a way calculated to secure the utmost satisfaction of these ends with the minimum efforts. Pricing in any particular market is likely to be influenced by its bearing on the maximum collective welfare.

The element of joint supply in a socialistic economy indicates another possible tendency. Prices of several articles, freely dealt in, will in a measure depend on the relative elasticities of demand for the same. Things for which the demand is comparatively inelastic will tend to have higher prices than others. The community, if it is interested in creating, by a process of indirect taxation, a surplus for its collective needs, may therefore find it advantageous to put up prices of articles with an inelastic demand, *i.e.*, mostly of necessities of life. The position would be analogous to the taxation of commodities in a capitalist state, specially to the case of a revenue monopoly. As more direct methods of meeting its collective needs are available to a socialistic state the practical extent of the revenue element in its pricing policy may be small. It, however, remains a possibility.

Supply in a socialist state being single-handed, it follows that the supplier, *qua* supplier, in this case the State, can control either quantity or price but not both. In either case, however, the essential function of value as a guide to economy would be satisfactorily served. Consumers would have a means to express their relative degrees of demands in the form of offers of purchase. The supplier will have to adjust himself to those offers. If prices are fixed by the State in the first instance their bearing on the state of consumers' demands will be indicated by the condition of stocks. At the given prices demand might either coincide with or exceed or fall short of supply. Accordingly, there would be a case for maintaining, checking or accelerating production. As the fixing of prices will have to be done for fixed periods and for categories of goods, the spontaneity and perfection of the adjustments between supply and demand will be only partially realized.

If the State were only to anticipate demand and leave prices to be fixed by reference to the relative intensity of consumers' preferences, such a level of prices will tend to establish itself as will be suitable to the marketing of the whole available supply. Prices realized for the various articles may or may not coincide with the State's version of the prime and supplementary costs of production in each case. The only prime

cost in a socialistic economy would be the payment of wages. Wages would no doubt tend to relative equality on account of a more regulated supply of labour, an equality of opportunities and possibly on account of a lack of a competitive demand for labour. But still relative efficiency will continue to be an important factor making for differences in wages.

Wages will be calculated and paid in some form of money, in which also prices will be expressed and realized. How is the State, however, to proceed in finding a money equivalent for its supplementary costs, which would include an allowance for the use of capital and for the general organization of the State? As for the latter an approximate calculation is possible on the basis of wages paid to administrative employees. But how are capital costs to be calculated and allowed for either in fixing prices in State stores or in comparing the realized prices with the outlay in production?

CAPITAL GOODS

By very definition, there is no free market for capital goods, hence for those there can be no market prices to help the controls in their calculations of costs. Short of a mere hit or miss—what Von Mises would less euphemistically call irrational—allowance in money, based perhaps on technical calculations, two features are available for the guidance of the main control. Wages of labour being given as a freely determined price, it is always possible to work out the substitution rate of a capital good and a unit of labour. If it costs 'A' to employ a unit of labour and it is a point of indifference to productive efficiency whether 'X' labour or 'Y' capital is employed the price equivalent for 'Y' is the same as the wage of 'X'. By its direct experience of the various methods of production the control can work out the comparative costs both physical and monetary. So long at least one factor of production, viz., labour has an exchange market there need be no insuperable difficulty in the way of working out even monetary costs of capital goods.

In another way also it is possible to work out by no means an unserviceable schedule of capital costs. The value of capital goods is derived from that of consumers' goods. If the prices of the latter are known, as they would be if the State experimented with differing quantities of supply, some indication of the relative importance of capital goods as compared with the price of labour that has gone into the production of that supply would be secured. In declaring their preferences for finished goods consumers would indirectly be declaring their preferences for the services of productive agents. Out of these last the pricing of labour services is an independent phenomenon. Hence the total cost of all capital services could be worked out as a check on calculations arrived at in detail by reference to the points of substitution with labour indicated above.

It will thus be seen that not only by the development of an irrational instinct, but also by the rational development of a technique of working out virtual money costs it is possible to regulate production by reference to demand, in so far as the demand is free. A necessary condition would, however, be the existence of a free labour market. If this last does not obtain the society would be for the most part communistic. Economy would be guided more by institutional controls and less by the indications of freely expressed demands of consumers. This, however, need not be true of every socialistic economy.

ECONOMIC PRODUCTION

Inasmuch as a socialistic economy can by any or all of the means above indicated bring about the disposal of available means to produce the maximum satisfaction of private and collective needs the elementary problem of economical production would in a way be solved. But, it may be asked, what guarantee is there of this way proving the most economical way? Under a competitive economy the profit motive leads producers to experiment with more and more economical methods of production. The urge to profit is the urge to discovery and enterprise. With the abolition of free production, discovery and enterprise would both vanish. Production would tend to be stagnant and, therefore, less economical than what it would have been in a private economy.

This argument has only an indirect bearing on the problem of value in a socialistic economy. In so far as money costs of differing methods of capital utilization can be worked out, as per methods discussed above, the institutional machinery to compare the costliness of different methods of production would not be lacking. In this regard a direct comparison of technical costs would also be not altogether impossible. If, however, valuation under a socialistic economy by its supremely monopolistic character were to discourage technical or organizational progress it would certainly be uneconomical in the long run.

There is, however, no reason to suppose that such a stagnant and toneless stage would be reached. For one thing even as a monopolist the State would be interested in reducing costs with a view to maximizing its surplus. If the State organizes research departments to keep a constant watch on the economy, to suggest and plan improvements, the tone of the economic system would no doubt be maintained on a high level. If it is felt that the element of competition adds to the spread and efficiency of productive reform, units of effective production and research may be placed in some type of competitive relationship with one another. Either by offering the inducement of high earnings or by other non-economical stimuli the process of technological and organizational improvement may be maintained at a steady pace. From a purely theoretical standpoint there is no reason to fear that with the abolition of profit technical improvement would necessarily slow down.

THE IDEAL AND THE REAL

As an idea, (not necessarily as an ideal), the formulation, expression and functioning of value would be institutionally possible under socialism. The best interests of consumption distribution and production of wealth would be served by the process of pricing in a socialistic no less than in a capitalistic economy. This happy state of things is conceivable. Is it probable? Much would depend on the wisdom and public spirit of the controllers of national economy. The efficiency of administrative organization and the intelligent cooperation of workers of all description would also be indispensable. Given an intelligent, progressive and patriotic people, the efficient working of a socialistic economy would be easily assured. Given these things, the just and efficient working of any economy, even of the existing one, would be a fair prospect. The expanding scope of collectivization in the existing capitalist structure is an expression of this truth. Unless more is known of the practical success of the Russian economy it is not possible to say whether conditions necessary for the success of a socialistic eco-

onomy obtain in that country. Whatever other faults one may find with socialism, it is not a tenable charge against it to say that 'economic' activity in our sense of the world—i.e., rational activity—would be impossible under socialism.

On one point a word in conclusion should be added. It is often claimed for socialism that under its dispensation social need and not effective demand will guide production. This will be true only for collective goods and that also under the supposition that the economic control is thoroughly disinterested. With regard to the freely (i.e., without provision through a State department of expenditure) supplied goods the market demand would still be the demand backed by purchasing power. In the interest of efficiency and justice differences in earnings will have to be tolerated in a socialistic State. With the exception then of the socially disbursed services which may perhaps cover a wider list of wants in a socialistic than in a capitalist state, the nature of demand and its influence on value remain unchanged under socialism.

SUMMARY

Complete socialization of economic life would make a society communistic. Collectivization of the means of production would, however, suffice to make a community socialistic, as distinguished both from capitalistic and communistic societies. Communistic economy would be similar to family or clan economy. The scale would be immensely greater, but the economic principle would be the same. A communistic society would attain the purposes of economic life without the emergence of exchange value. To the extent to which a socialistic economy provides for collective consumption the problem of securing equi-marginal satisfactions would be tackled without the interference of pricing which is a concomitant of an exchange economy. A socialistic community may, however, provide for quite a considerable list of freely consumed goods. In this field prices will be regulated by the familiar laws of monopoly value. The social policy pursued by the socialistic state will be reflected in its behaviour as a monopolist supplier. The socialistic state may, as a supplier, control either price or supply, but not both. If it undertakes to fix prices the adjustment between demand and supply can be only imperfectly realized. If prices are left to be determined by demand an equilibrium price will tend to establish itself. In both cases it is necessary that the State should be in a position to ascertain its costs of production. Costs will be made up of wages and the price or compensation for capital goods. The former will be easily ascertained by reference to the actual rates of wages, which are as free in a socialistic economy as any prices are likely to be. For capital goods market prices are not available. Wages of labour being given, it is, however, possible to work out the substitution rate of a capital good. So long as at least one factor of production, *viz.*, labour, has an exchange market there need be no insuperable difficulty in working out monetary costs of capital goods. A check on these calculations is supplied by deducting the wages of labour from the total price realized for the freely traded goods. A mechanism that would enable directors to work out monetary costs of alternative methods of production would also help in the selection of the most economical one.

Free Trade Among Nations: American Proposals

I PROPOSE to examine in this article the main features of the proposal for expansion of world trade and employment prepared by the technical staff of the Government of United States for the forthcoming International Conference on the subject. It has been reported that the spokesmen of the British Government have agreed in principle to these proposals as a basis of discussion. How far this general concurrence might lead to practical agreement remains to be seen. In any case it is necessary to examine the proposals of the American experts from the standpoint of Indian interests.

The utilization of modern technology in our industry is in such an undeveloped state and we have so long been denied the opportunity of following a genuinely national policy of economic progress that Indian opinion on the subject of commercial policy is even today almost unanimously in favour of protection. How little opinion has changed on the subject will be clear from the following extract from Prof Kale's *Economics of Protection of India* (1929) pp 31-32, which may be taken to represent the general Indian view to the present-day:

“While it is true that there is no special theory either of free trade or of protection because the first would ignore the existence of independent nations and the second would have to adjust itself to different policies and aims which are incompatible with the fundamental economic motive, it would not be correct to hold that protection is, in all conditions, indefensible on purely economic grounds. . . . We, of course, assume that the unit to be dealt with is not the isolated individual or a number of Robinson Crusoes promiscuously thrown together, but an organic body, a nation. We also assume that the capital and labour, that is to say, the productive power of a community is not something that is ever fixed by nature, which is incapable of modification. Now, both the assumptions are not like the metaphysical conceptions of the older economists, mere abstractions, but they are living realities. It follows from this that in the domain of international exchange, the superior advantages a country has in bargaining with others, may be developed by conscious effort at enabling the national industries to control a

Source: *Indian Journal of Economics*, Vol. XXVII, Part III. January 1947, pp. 279 to 285.

growing portion of the total supply of certain commodities in the world market and to provide the supply at a diminishing cost, as on this capacity depends the benefit which exchange between countries is calculated to confer on them. But so long as the home market is dominated by the supply of commodities coming from outside and offered at low prices because they have been produced at lower costs, the indigenous manufacturer cannot compete and cannot organize national capital and labour in association with the country's natural advantages so as to be able to offer his goods at the world price. The foreign supply has, therefore, to be restricted and its price has to be raised to a higher level.... Free imports of commodities rendered cheap by efficient production or by advertitious circumstances, prevent the development of the resources of a country in raw materials, capital and manpower and do not provide scope for the division of labour and competition to produce their beneficial effects. This is a loss to the country and indirectly to the whole world."

This extract does not provide a special theory of protection but it vividly brings out the significant stages of the successful application of discriminating protection. The USA has not in the past been known to be particularly discriminating in the award of protection to American industries, and yet the pre-eminent position in economic leadership that it has attained could not have been achieved had its American policy makers listened to the admonitions of Bright and Cobden a century ago. As all free trade is not absolutely beneficial, all protection also is not claimed to be beneficial, and the case of each country and of each industry must be judged on its own merits. The American trade proposals do not show sufficient appreciation of the lessons of the evolution of American industry itself. It is true that the full-fledged application of free trade principles is not now suggested and some discriminating protection is to be allowed as a legitimate exception. But the parallel between the exponents of British industry, preaching the gospel of free trade after their triumphant emergence from the Napoleonic wars and the first Industrial Revolution, on the one hand, and the USA exponents, preaching the expansion of uninterrupted world commerce after attaining to the position of "the largest producer" and "the only important lender on earth", on the other, is too obvious to be ignored.

I do not for a moment suggest that the position of leadership, economic, political and military, occupied by the USA after a century of intensive and comprehensive protectionism should be construed as an excuse why we should not judge the proposals on their own merits. For one thing mutual dependence of nations is not more obviously a condition precedent of civilized and peaceful life than it was a century ago. Moreover, the American trade proposals at least ostensibly do not aim at abolition but only at a substantial reduction of tariffs and other restrictions. The political and economic ideology behind the proposals as also the proposals themselves deserve careful study vis-a-vis traditional commercial policy in India.

The American proposals for expansion of world trade in common with similar proposals for promoting freer international relations were developed when the reforming enthusiasm immediately following upon the successful termination of the war was still undiminished by the persistent tendency towards formation of blocks that has latterly asserted itself. The victors of World War II had an opportunity to shape the world according to their liking, it was felt. Nations, it was further felt, had deliberately chosen at the San Francisco Conference to abandon the path of mutual struggle for poor and

wealth and to embrace common security and mutual advantage. The American experts will perhaps not hesitate now to recognize the weakness of this attitude of confidence. Power is still the first object of every nation that has the will and the potential resources to lead a life of effective influence, if not of domination. As a matter of fact, even the successful operation of the several UNO bodies would make little difference to this attitude of nations, as the effective influence that a member nation can wield at international gatherings is mostly in proportion to its economic and defence potential. The desire of each nation to develop its economic life so as to subserve not only commercial, but political, military and cultural objectives cannot even now be ruled out as outdated.

Another facile assumption of the American proposals is almost bodily adopted from the catechism of the old free trade school. We are asked to believe that experience of cooperation in the task of earning a living promotes both the habit and the techniques of common effort and helps make permanent the mutual confidence on which peace depends. Does the internal association of classes and the international association of business interests justify this fond faith in the peaceful efforts of free or freer trade? On the contrary uncontrolled economic dealings between unequally matched partners have caused more heart-burning and more animosities than mere isolation. That science and technology have now made it easier for nations to develop their resources of nature and man-power is a potent influence in favour of national no less than international development of economic life. Restrictions by themselves neither promote nor hamper welfare. It is the use to which either freedom or restrictions are put that is really significant. Science and technology must certainly be an article of free international exchange; it does not follow that the products of industry in a country which had the first or the most spectacular use of these are in the same category. How very naive is the ideology behind the American proposals is further brought out by the chain of reasoning which represents more trade as meaning more jobs, more wealth and more goods to be enjoyed. This is a panegyric on free trade almost on a meta-physical level. It leaves out of calculation all the inconvenient questions. Does more trade necessarily imply foreign trade? Does expanding foreign trade, specially import trade, create new jobs? What happens to those who are thrown out of their jobs which concerned production of goods now imported? If the new jobs are in an already overstocked and unproductive industry do new jobs mean more wealth? Does the end term of the process figure up to more goods to be enjoyed or less goods? As the USA is a prominent example of sustained employment of a protective policy to secure all sided economic development in a new land India is a prominent case of an old country being denied opportunities of readjustment to new scientific and technological processes by an indiscriminate adoption of free trade. The whole course of economic evolution in India is a sad commentary on the devastating effects of exposure to the competition of industrially advanced and politically powerful nations. It is futile to expect that Indians will forget the moral of their past experience in chalking out their attitudes toward freshly oriented proposals that would seek to limit the freedom of their present and future commercial policy.

The American proposals are the reflect of a feeling of political and economic optimism which, however natural it may be for the people of the USA, it is difficult for us to share. In view of our own growing contacts with the rest of the world and of

our own needs for an intensified economic development we must, however, be ready to judge the proposals on their own merits. A detailed examination of the several sections in the American note can only be undertaken by an expert committee supplied with all the relevant data. The main outline of the proposals can, however, be reviewed in the light of general principles. Four groups of obstacles to world trade are tabled for discussion: 1. Governmental restrictions; 2. Private combines and cartels; 3. Disordered markets for primary commodities; and 4. Irregularity of production and employment. A general feature of American proposals under all these heads is that they are all formulated from the angle of American experience and needs, and are relevant more to American and European conditions than to those in India. At several important points, therefore, they are almost grotesquely inapplicable to our own conditions and needs.

As a prominent case in point let us take the very first group of proposals, those designed to mitigate, if not to obviate, governmental restrictions. We are reassuringly told at the outset that what is intended is not the introduction of a free trade regime but only a reduction in the barriers to trade. Now this can have reasonable application to the tariffs and other restrictions which have thriven in USA and several European countries. For India, which has had to build up a very limited range of industries under the policy of grudging protection hitherto granted by a government out of reach both of the sympathies and the opinions of the people, a reduction in tariffs can have no meaning. Frankly we want more and higher tariffs for a much larger variety of industries than have hitherto secured the support of the State. I am fully aware of the limited potency of tariffs in comparison with other more direct ways of influencing industrial progress, and yet we cannot bargain away our full freedom to impose tariffs when and how we prefer to do so. When the question of fitting in industrially undeveloped countries into the implications of a formula of reduction of tariffs was raised before the Social and Economic Council of the UNO, and by our own businessmen here we were reassured that the special needs of such countries will be taken into account before final proposals were made. There is no need to doubt the sincerity of this assurance, but the fact of the matter is that we simply do not fit in any enunciation of reduction.

As far as I can see tariffs will continue to be imposed on the merits of each case and after careful inquiry. But it is more than we can promise to say that the merits in all cases will be so obviously economic or commercial as our foreign friends may desire them to be, nor can we bind ourselves to a code of rigid tariff procedure as was followed by the Commerce Department of the Government of India till now. Future tariff policy in India will be guided more to the hitherto neglected Minority Report of the Indian Fiscal Commission than by the Majority Report which held the field till now. The difference in outlook between the two rival views has been well brought out by Prof. Kale in his book quoted above (p. 90) : "While the majority would scrupulously balance cost and advantage at each step, though this meant slow progress, the minority believed that the achievement of substantial results needed immediate and comprehensive measures even at a heavy temporary sacrifice." The need for rapid and substantial industrialization has been multiplied manifold since the Fiscal Commission's Report was written now a quarter century ago. In the context of our present and prospective needs of industrialization we can hardly promise anything more than

that tariffs will be levied not on a universal basis but on the basis of selection. In implementing the principle of selection we must be left entirely free.

The case against India's participation in an international covenant to reduce tariffs is thus unchallengeable. In principle the same reasoning applies to other forms of state restrictions on trade, except perhaps the purely procedural aspects of policy where unnecessary hardships to foreign dealers can be removed where they are shown to exist. *Prima facie* the case is not so strong in regard to permitting discriminatory treatment as among several foreign countries. Even here, however, purely commercial considerations may dictate a policy of discrimination. The supply of hard currencies will not be unlimited even if the International Monetary Fund actually works to specifications. The internal policies of several hard currency countries including the USA, may necessitate compensatory action regulating our imports from these countries. Besides, it is in my opinion a mistake, theoretical as well as practical, to lump all foreign nations together, and seek to have a common policy with regard to all of them. While wanton or senseless discrimination must be avoided—in fact such action will be necessitated by the code on international diplomatic relations—we cannot ignore the natural affinities of trading relations. For very different reasons countries in the South-West and South-East Asia and Great Britain will continue to have a special significance in our foreign commerce for many years to come. Concessions made to promote mutual interest in any of these ought not to be interpreted as bad international behaviour by the rest.

Publicity, mutual exchange of information and timely removal of avoidable causes of misunderstanding are worthy objects of international cooperation, and if for no other reason even for these the establishment of the International Trade Organization and India's membership of the same would be worthwhile. If the compliance to resolutions adopted by the organization is compatible with the essential freedoms outlined above there would be no objection on India's part to join in the work of the forthcoming conference. Several of the general principles about commercial policy, other than those affecting tariffs, can be easily conceded as rules of general guidance which will be observed in all normal circumstances. That imported products should not be treated less favourably than local products in respect of internal taxation and regulation of trade; that the circumstances in which anti-dumping and countervailing duties might be levied should be clearly defined; that states should refrain from governmentally financed or organized boycotts; that no discriminatory export duties should be levied, and that state trading should be conducted on purely commercial principles are all theoretically perfect prescriptions and can be adopted as general rules of conduct. Circumstances might, however, arise which would justify a departure under almost each one of these heads. The dividing line between legitimate exception and an objectionable departure is likely to be thin, and while a member-nation will be ready to undertake the obligation to keep the International Trade Organization duly informed of all the circumstances of each real or apparent departure it must continue to be the final judge of its own actions. Leading nations like the USA, Russia and the UK are in effect judges of their own good behaviour. It is only the less powerful and therefore less influential members who run the chance of being told off for unmember-like behaviour. It is, therefore, best to make the constitutional position clear right from the start. The ITO should be organized more on the analogy of the ILO than on that of the IMF or the IBRD.

The situation in regard to international cooperation under the effective leadership of the USA is complicated by the fact that a plea for equality of opportunity for that country is a plea for exploitation of the markets of the world. The charge may be in effect unjustified, this has yet to be proved. The attitude of other nations towards American sponsored internationalism will depend not on the negative freedom that the USA supports but on the positive help that they give to backward nations in the shape of capital and technical assistance, without restrictive conditions. As far as India is concerned we can confidently say that we would value close political and economic cooperation with the USA provided there is a positive and constructive exchange of advantages, and not a mechanical adherence to a purely negative formula of no controls. As we proceed with the work of the trade and employment conference in detail we shall have several occasions to test the sincerity of American desire really to encourage intensive industrialization and fuller employment in India. There is no occasion yet either for an overtrustful adherence to empty formulas or for a suspicious and sulky repudiation. The reply that Mr. George R. Merrell, US Commissioner to India, has sent to the Federation of Indian Chamber of Commerce and Industry, which had urged that the Government of India should not join the proposed conference unless the proposals are capable of material alteration in the interests of industrially backward countries is to say the least very vague. Until the preparatory committee, on which India will be represented if it decides to join the conference, produces its revised and amplified draft there is little to substantiate Mr. Merrell's assurance that though no specific mention is made of underdeveloped countries their welfare, progress and prosperity were prominently present in the minds of the USA experts. It must be said that the proposals now offered for discussion do not carry any impression on this part of the contents of the minds of the USA experts.

With the advent of socialistically included governments in all important countries other than the USA the proposals for the restriction of cartels will be found to have a very limited application, and that too in the USA, itself, where anti-trust laws have hitherto proved a very insufficient deterrent to the undesirable activities of trusts and cartels. The proposals now offered really amount to replacing international restriction by private combines, with inter-governmental agreements to suit each case. This is, of course, a superior and less objectionable method of commodity regulation where one is needed, but does the suggestion itself not reveal the continuing need for regulation as against a dogmatic adherence to freedom. How the whole bias of the trade proposals is to generalise from American experience is clear even in this respect, namely regulation of commodity markets. The theory that after a prolonged war a glut develops in certain articles of civilian consumption is true only of the USA and perhaps of some of its more fortunate allies. In India the peace has brought no glut for the simple reason that the war was never used for a production drive under the peculiarly anti-national policy of the government. For us the problem is not of an anticipated glut but of a serious continued shortage. While the Americans can indulge in the wanton luxury of destroying surplus stocks in India which are badly needed by the people of this country it will take something more than a wordy assurance to prove that substantial common ground of mutual interest can be provided by the proposed ITO.

I for one do not fear that common ground of interest will not be found among nations. Past experience of international cooperation, however, shows that the better

is ever the enemy of the good. Let us by all means associate ourselves in good faith with the work of the preparatory committee of the conference on world trade and employment. If we could help to make its constitution and working helpful to what we consider our legitimate interests we can heartily join in its future development. We shall not join under false pretences either on our part or on the part of other members. The establishment of a national government in India is enough to reassure us that we shall not continue in an unprofitable association merely to satisfy an empty formula of international cooperation. The development of a commercial and employment policy which will help to realize at the earliest possible date a substantial rise in our industrial strength and standard of life is our major objective. We are with the ITO to the extent to which it helps us to realize this end. Expansion of trade is welcome if it widens the scope, variety and productivity of the employment of our resources. If there is a conflict between trade and productive employment the former will have to be sacrificed. This must continue to be our commercial policy now as it was the substance of our case against free trade in the past.

Economic Incentive

ECONOMIC incentive, or the principle of making remuneration proportional to service, which was accepted by classical economists as both natural and beneficent need reconsideration, *vis-a-vis* current trends towards social security and collective enterprise. The law of supply on which equilibrium economics is mainly based is itself only a formulation of the anticipated effects of economic incentive. While this law is substantially borne out in respect of individual uses of the variable factors of production, its influence on the total available supply of factors has been increasingly tenuous. Not only natural resources but human effort, that is population as a whole, must be treated as being immune from the direct effects of economic incentive. While in relatively backward and poorer economies rates of interest and profit must still be considered to have noticeable influence on the supply of capital and enterprise, in advanced economies both these are of the most part institutionalized and rendered substantially immune from direct dependence on the rates of interest and profit. Institutional savings and managerial planning now play a significant part in the working of capitalistic economy. In a socialized economy this process of institutionalization is carried further but there is really no revolutionary or irrational change in principle. Mechanization and rationalization of economic activity create conditions in which social security through social cooperation becomes possible. Even in a socialized economy, however, an individual's own earning still continues to depend in a large measure on both the positive and deterrent forms of economic incentive. In such an economy economic incentive is not suppressed; it is socially administered.

WHAT IS ECONOMIC INCENTIVE?

Incentive means the motive influence of or the encouragement to action. Economic incentive thus most obviously means encouragement to economic activity. By implication it also means material or economic encouragement to such activity. The idea intended to be conveyed by the term economic incentive can thus be fully stated as "material encouragement to economic activity." In discussions among economists the

meaning is further specified as the principle of making the rate of remuneration proportional to the efficiency of service rendered by each individual.

WHY RECONSIDER IT?

Two well-marked trends in contemporary economic organization have rendered necessary a reconsideration of the established ideas of economic incentive. Even in countries which are yet wedded to the basic principle of individual enterprise a large body of economic legislation and practice has tended to weaken the free play of 'economic incentive' as understood in the past. Legislation controlling the hours of work and the rates of wages are in operation in almost all industrialized communities. Profits, the traditional incentive to enterprise, and interest, the incentive to accumulation and investment, are also being legislatively and administratively controlled. In many of these communities more or less comprehensive schemes of social security are in operation. Even before social security programmes were deliberately adopted transfer earnings by way of taxation and public expenditure policies had disturbed the working of direct and unqualified economic incentive. The prevailing concept of a welfare State has emerged by almost imperceptible steps out of the steadily increasing scope of protective and welfare legislation. Whether it is a social security or social welfare, that is the objective of State action, by making a large part of the advantages which a citizen is entitled to receive immune from the quantity or quality of his own economic activity the operation of economic incentive has been modified. According to the special viewpoint of each observer this modification has been described as an improvement or a weakening of economic incentive.

Where the principle of free individual enterprise has been substantially abandoned and conditions of central or national planning have been created the entire complex of the organization of economic activity has changed. Though Soviet Russia and countries directly under its ideological and political influence are at present the only areas where collective enterprise has more or less completely replaced individual enterprise, the effects of the new regime are being felt practically all the world over. Nationalization has become an accepted policy, though the extent of its adoption varies from country to country, and the merits and demerits of collective enterprise have become the subject matter of discussion. Supporters and critics both tend to base their arguments in large measure on the conditions of economic incentive in a Socialized State.

Social welfare or social security, and collective enterprise or nationalization both are comparatively recent but strong currents in economic policy. Elucidation and appraisal of economic incentive in relation to these constitute an important and unavoidable part of current economic thought.

CLASSICAL THEORY OF INCENTIVE

The roots of the classical theory of economic incentive can be traced to the famous dictum of Adam Smith: "The natural effort of every individual to better his own condition when left free to operate to the full produces for himself as also for the community the best possible conditions of wealth and welfare." Whether it is the accumulation and employment of capital, or the supply and efficiency of labour Smith finds full explanation of these in the individual's effort to better his own condition. In other words the striving after material reward and the dependence of this latter on the effort made are

for him a fully satisfactory statement of the inducement to vital economic activity. As he says with regard to labour: "The wages of labour are the encouragement of industry, which like every other human quality, improves the proportion to the encouragement it receives."

In the more formal presentation of classical economics, the equilibrium economics, Smith's enunciation of encouragement to quality was absorbed in the general statement of the Law of Supply. With higher prices supply improves, with lower prices supply falls. If more of a thing is forthcoming its price falls, the diminished encouragement leading to a consequent readjustment of supply to demand. A situation of short supply would, according to this theory, be corrected by the encouragement of higher prices. Remuneration thus figures as the balance wheel of the entire complicated machinery of economic activity. The mechanical perfection and the intellectual complacency of the established systems of equilibrium economics are thus based on the acceptance of the Smithian doctrine of encouragement or economic incentive.

Economic incentive thus formulated was expected to ensure effective equilibrium not only in respect of individual commodities and uses but also in respect of the factors of production. The supply of capital was adjusted through encouragement to abstinence, and of labour through encouragement to industry, that is through wages. Even such apparently unconnected classical theories as the Law of Population and the doctrine of Free Trade are really based on the basic formulation of the natural and beneficent effect of material encouragement on supply. Whether it is production or distribution, commodities or factors, internal or international trade, the classical theory for the respective field assumed the validity of economic incentive as the chief regulator. The School's strong support to a regime of non-regulation was in no small measure due to its horror of any tampering with this vital prime mover.

APPRAISAL OF THE CLASSICAL THEORY

In commonsense terms the correlation of supply with remuneration really amounts to a belief in the efficiency of the carrot and the stick. The one encourages and the other retards supply. As applied to particular fields for the employment of a factor of production supply was indeed regulated to a noticeable extent as implied in this calculus, subject of course to the well-known reservations about the length of the period of adjustment and the degrees of elasticity of supply. The extension, however, of the Law of Supply to the total quantum of a factor of production leads in the first place to a number of allegedly exceptional and imperfect cases. It may be advantageous to note the most important amongst these before asking ourselves the question whether they all total up to a significant diminution of the influence of economic incentive on supply.

Adopting for convenience the four-fold scheme of factors of production it is obvious that the supply of natural resources is entirely outside the influence of remuneration. In regard to capital, the effect of variation in the rate of interest on the class of persons who save with a view to providing a particular sum as current income in the future, has been known to be contrary to that indicated by the carrot-stick incentive. A fall in the rate of interest, with this group of savers, actually leads to an increase in savings; a rise in the rate of interest makes these less thrifty. Some economists, Marshall being among them, have noted the phenomenon but they have shelved it as a minor exception to the general rule. On the other hand, Cassel considers this class to be of

sufficient importance to constitute a counter-weight to the behaviour of the 'mercenary' saver and concludes that: "In a broad sense it might be said that capital is just as willingly supplied at 3 per cent as at 6 per cent."

Considering the influence on total savings exercised by organized agencies such as insurance companies and joint-stock concerns Cassel's opinion seems to conform more nearly to reality. The premium rates of insurance would move contrary to the direction indicated by the Law of Supply. Private and public insurance, voluntary and compulsory, now covers such a large variety of risks that the total influence of these cannot be easily ignored. Joint-stock concerns covering a large part of modern industry are in a somewhat different class. Not only for their depreciation and replacement needs but also for their expansion programmes these organized users of capital are normally accumulating capital without direct reference to the rate of interest. Then again there is the class of the very rich whose incomes are so large that their savings are not dependent on what they earn from their future investment. Even in an economy of free enterprise, therefore, and keeping out of the reckoning non-economic and indirect influences it is clear that we cannot unreservedly accept the view that the total supply of capital in an unregulated economy substantially depends on the rate of interest.

It is obvious, however, that where institutional and provident savings play a small part in capital accumulation, as for instance in relatively backward economies living on the margin of subsistence, incentive to individual saving will play a very important part. Leaving out of consideration non-economic inducements, it is clear that the rate of interest will have a noticeable effect on savings in such communities. Even in the advanced communities if the demand for capital for some reason were to be raised beyond the reasonable limits of institutional and provident saving the incentive of interest cannot be ignored within the limits of economic activity, that is ignoring non-economic inducement.

Coming to enterprise we are again confronted by a contrary exception and a significant modification. A reduction in the profit of an established business, which may be tempted to be complacent about its organization, has been known to exert an energizing influence on improvement of the efficiency of organization. Within limits such a favourable reaction on enterprise caused by a prospective or actual diminution in profits is normally anticipated. Fixing of legal minima of wages in relatively unorganized industries proceeds on this assumption, and, by and large, it has not been proved to be ill-founded.

More important still, as a consideration freeing the supply of enterprise from its dependence on profits, is the development of a professional class of enterprisers, who may be conveniently though not adequately described as the managerial class. This class includes not only persons holding posts of managers, but the varied top-level executives and experts who supply on professional terms the real substance of enterprise. Even for the Directors of Boards, it has been observed that in many cases their fees as directors exceed the dividend that they receive on their own investment, thus making their function as directors appreciably independent of the distributed profits of a concern. Even the institution of salaried directors is not altogether unknown to company organization in non-socialized economies. Business organization has been steadily moving in the direction of making the functions of enterprise conform more and more to salaried services.

Here again we are assuming conditions of developed enterprise. Where enterprise needed to launch new types or new units of activity is yet in its initial stages the efficiency of a prospect of higher profit in overcoming the fears of apprehended losses cannot be easily ignored. Even that element of non-economic or animal urge to which Keynes refers in the following statement (G.T.P. 161-162) which not compensate for the lack of a direct incentive in such conditions.

“Even apart from the instability due to speculation, there is the instability due to the characteristic of human nature that a large proportion of our positive activities depend on spontaneous optimism rather than on a mathematical expectation, whether moral or hedonistic or economic. Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as a result of animal spirits of a spontaneous urge to action rather than inaction, and not as the result of a weighted average of quantitative benefits multiplied by quantitative probabilities. Enterprise only pretends to itself to be mainly actuated by the statements in its own prospectus, however candid and sincere. Only a little more than an expedition to the South Pole, is it based on an exact calculation of benefits to come. Thus if the animal spirits are dimmed and the spontaneous optimism falters leaving us to depend on nothing but a mathematical expectation, enterprise will fail and die; though fears of loss may have a basis on more reasonable than hopes of profit had before.” “. . . It is safe to say that enterprise which depends on hopes stretching into the future benefits the community as a whole. But individual initiative will only be adequate when reasonable calculation is supplemented and supported by animal spirits, so that the thought of ultimate loss which often overtakes pioneers, as experience undoubtedly tells us and them, is put aside as a healthy man puts aside the expectation of death.”

Economic incentive has been more often discussed with reference to its influence on the supply of labour than on any other factor of production. Curiously enough it is exactly in this sphere that the incentive fails even more significantly than in the case of other factors. There is, of course, the usual paradoxical effect, high wages making for absenteeism and low wages leading to willingness to work longer. But considering the supply of labour as a whole it is almost entirely outside the direct influence of the remuneration incentive. For purposes of this argument the prospects of immigration and emigration may be safely omitted. Within the geographical limits of a state the quantity of labour depends on total population and its composition. The quality of population depends mostly on heredity, environment and training. Now whatever may or may not be true about population, this much ought now to be granted that its total numbers are not directly dependent on remuneration. Even if we stretch the argument to mean that the labour force of one generation depends on the earnings of the last, the argument would have too many holes in it. Not only the socio-ethical concepts regarding family, marriage and fertility, but even the biological aspects of the population movements are mostly outside the influence of economic incentive. In fact not only by a traditional prejudice, but also by the most rational and scientific acts of modern men, population growth seems to move not directly but inversely with variations in earnings.

In fact it would be nearer the truth to say that population like resources of nature, should be treated as falling entirely outside the scope of economic incentive than to posit any direct relation between these and then proceeding to admit exceptions. It is true that economic incentives would gradually influence factors affecting the quality of the popu-

lation. Environment would improve, training would be facilitated, and gradually heredity would act beneficially in response to improved earnings. The contrary effect would be produced by lessened earnings. But this argument really amounts to saying not that economic incentive adjusts the supply of quality, but that it creates conditions in which the sources of supply move in the direction indicated by the movement of earnings. But once we leave the argument based on a direct dependence of supply on remuneration and speak of the influence exercised on sources of supply we are confronted with issues which are no longer the sole concern of economic thought. Very vital non-economic influences come into play.

Leaving out of account natural resources, which must be taken as physically determined, we may start with capital. A higher rate of interest by putting more resources into the pockets of those who are above or near the margin will certainly augment the fund of investible capital. Capital formation may be affected by altered habits of thought and action, by the prospects of political security and even by more direct appeals addressed to the citizens. These are indeed potent influences on capital supply but they are of a much more complex nature than direct economic incentive. Their existence, coupled with the shortcomings of an unqualified application of the doctrine of economic incentive tend to prove that the general level of earnings, the pattern of distribution, habits of the people, social stability and capacity to think in terms of the needs of the community over the short and the long periods affect the supply of capital. This is a very valuable knowledge which should make us less enthusiastic about economic incentive by itself.

A high rate of profit will increase the available fund of enterprise, not so much by augmenting it among those who are already in business, as by drawing within the class fresh 'enterprisers', whose enterprise was really too modest to run a risk at a lower rate. In fact, in so far as individual risk-bearing has any place at all in the highly integrated and socially nursed modern economics even in capitalistic countries it is being attended to in their normal stride, as noted above, by salaried executives. By helping to broaden the supply of this class by training, by business reorganization and by a more positive recognition of their role the needs of the economy on this score are likely to be more assuredly met than by a rise in profits.

The same process by which machinery replaces manual labour makes large-scale production more economical than small scale, emphasizes the division and integration of labour, makes for a replacement of individual initiative over an increasing part of the economic activity of the community by institutional choice and directions. This progress of institutionalization does not indeed weaken the relation between individual reward and individual effort within particular fields of employment, but it determines the broad and basic conditions of such employment. Among these basic conditions, being increasingly institutionalized, must be included the supply of factors as a whole and their organization.

ALLEGED LACK OF INCENTIVE IN SOCIALIZED ECONOMY

The main criticism frequently made against either the fully planned or an increasingly regulated economy is that such developments leave little economic motive for labour and risk-bearing. In the light of previous discussion it will be seen that risk-bearing, like capital formation, in developed capitalism is for the most part already institutionalized. In the name of the ultimate shareholder, who for all practical purposes is

a passive partner in business, salaried and professional executives make all the crucial decisions and choices. If the process of institutionalization advances further to the point of making all economic activity a part and parcel of social institutions organized by the community as a whole, no radical change of principle is made. Choices and decisions will still be made by salaried and professional persons whose motives in substance will not differ from those of the normal manager or director under the capitalistic regime. In such a system the place of the shareholder will be taken by the citizen.

As regards labour it is only a travesty of facts to allege that in a planned society the individual worker has no economic motive for work. All that a planned society does is calculated to increase the potentiality of efficient work on the part of the people. All the pre- and post-natal schemes of assistance, training and security will no doubt ensure a much more widespread and selective diffusion of talent among the people. Against the background of such a favourable condition of total supply of all the required talent, the employment of individual persons is governed by the same, if not by even a more systematized and accentuated, application of the principle of economic incentive.

While minimum wages will be universally prescribed the actual wage above this limit will depend on efficiency. Whether it is by piece rate, or individual and collective bonus, or the prospect of promotion efficiency will continue to earn higher wages. Even risk-bearing, the high managerial function, will conform to this rule. There is no reason to apprehend that the negative or disciplinary methods of ensuring minimum efficiency will be less potent in socialized than in private industry. Such inelasticity as will continue under planning is inherent in an integrated and large-scale organization of production. Labour legislation, labour organization, industrial adjudication and similar extensions of the social process into the field of economic activity which are the inevitable counterparts of the process of industrialization have already been firmly established in capitalistic society. If we appreciate the real springs of action in the modern industrial state there is then no reason to suppose that for particular items of the individual's own economic activity the economic motive will be less potent in a socialized economy than in an unregulated economy.

INCENTIVE AND CIVILIZATION

While a discussion about non-economic incentives of economic activity falls outside the direct implications of this paper, it must at least be recorded that in so far as these affect economic efficiency, their operation in a planned economy is likely to be much more widespread and positive than is the case in a non-regulated economy. Whether it is the craftsman's pride to do a good job, or it is the desire to earn the appreciation of fellow-men, or it is the urge for service to the community through the efficient discharge of one's function, or it is the sense of shame at falling below the minimum standard approved by the group, all the positive and deterrent urges in a socialized economy will bring them in to play much more effectively than the economy of individual enterprise has been ever able to do.

In fact as noticed by Robertson (*Economic Fragments*, p. 22) an excessive preoccupation with incentive is a heritage of economic science from the past which sometimes tends to darken counsel. Early economics was based on some assumptions regarding human instincts, and the characteristic instinct on the thesis of which laws of economic behaviour were formulated was the economic incentive. Now, while it is certain that

instincts play an important part in human action, the expression of these instincts is essentially conditioned by the long educative process which is civilization, and by the nature of the social institutions created by man to enshrine his ideas and to express his will. The increased command over nature which makes prosperity through large-scale organization possible at once creates the conditions of greater security and establishes the habit of cooperation. Prosperity, security and cooperation are all integral parts of the one and the same process of individual instincts being developed and organized into an informed, purposeful and integrated existence. Nobody who has even the slightest awareness of the character of civilization can fail to recognize this. The efficiency of the "Carrot and Stick" incentive may not altogether vanish till men develop wings. But with the progress of civilization habits of cooperation and of progressional efficiency can be and are being gradually ingrained in men to the point of being appropriate transformation and substitutes of that economic incentive which for the earlier economists constituted a providential arrangement by which self-interest automatically constituted the best instrument of both individual and collective welfare and prosperity.

Towards Progress in Economics

THE nineteenth century closed on a note of intellectual and moral complacency. In the field of thought as well as of action it seemed that the main lines of progress were finally laid down. Much advance, it was admitted, was needed to work out the special application of each principle, and it was also conceded that changing interpretation in the light of changing circumstances would be called for. Indeed the idea of progress would make such a periodical interpretation itself a normal activity. But the postulate of progress and the advocacy of individual freedom as a method of attaining it, seemed to be established as principles of civilized human thought in all walks of life. Of course the irrepressible questioners and revolutionaries could not be silenced. They were, however, relegated to the class of cranks and romantics, if not of social pests.

The twentieth century which opened in the rosy prospect of peaceful progress induced by the feeling of complacency with which the old century had closed has not, however, been destined so far to record a story either of self-satisfaction or of constructive human achievement. Problems of internal harmony among the several classes in the advanced nations, those of inter-Imperial relations among the paramount powers and their subject territories, and finally those of relentless jealousies among the Imperial and would-be Imperial powers, strained to the limit all the feelings of complacent faith in the efficacy of the accepted doctrines of normal human relationship. While on the one hand, physical science was making breath-taking, almost miraculous discoveries, the appropriate training of the human will and emotions, by which these could be used for enriching the happiness of humanity, was found to be sadly deficient. Even before the actual commencement of the World War I it was obvious that the problem of inequality among classes and among nations could not be solved by an appeal to the established principles of the social science. A new heart-searching had already made itself manifest among the social scientists when the first shot was fired in the war of 1914.

That a semi-dynastic conflict in an obscure part of the European continent gra-

dually engulfed the whole of the civilized world in its far-reaching and disruptive effects did not surprise many a shrewd observer of the social and political trends of the period. The technological, intellectual and moral experience of the period of the World War I and of the decade following its termination convinced social thinkers as a class that a deeper and wider analysis of human conduct and of social institutions was needed if the potent forces of physical science now available to humanity were to be trained and guided into peaceful and creative channels. The inter-war years have thus been consciously, almost unavoidably, a period of loud thinking on the part of social scientists. What was a feeling of uneasiness at the end of the World War I has, in spite of the virtuous self-analysis of the inter-War period, now developed into a feeling of virtual guilt. Who that has witnessed the irrationalities and the inhumanities of the last few years, traces of which are still visible on all sides, can escape either a feeling of guilt for the past or of fateful responsibility for the future?

I have been referring here to social scientists generally and not to the economists in particular. This is due to my firm faith, about which I hope to say something in detail in a later part of my speech, that economic science, whatever an individual economist may profess or protest, can never in fact be dissociated from the social philosophy of the times. The nineteenth century economics was obviously a branch of that school of natural freedom and human progress which in politics built the edifice of ballot-box democracy and in philosophy led to the popularity of utilitarianism. The tenets of the old liberal school of economists are so well-known that it is not necessary to refer them here. Suffice it to say that in their general scheme of naturalist economy they, with the prominent exception of Ricardo, were always ready to incorporate what appeared to them as necessary exceptions enjoined by commonsense; this they did not consider to be less a part of nature than the intellectual flights based on assumed premises. In Adam Smith, and in John Stuart Mill we come across these deviations into reality which gave their works a peculiar air of conviction and which earned for them almost immediate recognition from men of action. Besides the commonsense which is such a charming and believing feature of their writings, they had in abundant measure a genuine faith in the validity and practical beneficence of their theories which provoked the usual amount of criticism, but which in the end succeeded in winning for them a friendly hearing and a not unwilling following.

All thought, especially all social thought, is provoked by the challenge of circumstances. As the upheavals of the late eighteenth century subsided into the new world of mechanical industry, national power and liberal government, the creed of the economists adjusted itself to the changing circumstances of time and place. As a result of normal growth among the West European powers a common social pattern seemed to have been developed towards the end of the nineteenth century. The integration of the main body of liberal economic thought was the natural counterpart of the world of economic facts in which the exponents of the theory had their being. The disillusionments, which the twentieth century brought with it, were perhaps too sudden for a large number of economists, brought up on the undeclared yet devoutly cherished notion that all that had to be said about the fundamentals of economics had already been said by the great masters, and what remained for their twentieth century successors was to refine and to elaborate these, while sparing an occasional thought for the too obtrusive among the exceptions.

It is perhaps true that being too near a period is an obstacle to its proper understanding. In the face, however, of the challenge thrown up by the tragic and bewildering experiences of the last three decades, the paradoxes and the theoretical niceties with which a large number of economists are delighting themselves do appear to be a flagrant case of escapism, which would be very interesting if it were not for the serious consequences to which they lead. At a time when huge engines of oppression are built on the foundation of unreason we are told to assume that economics is a science of rational human behaviour. When the integrated personality of the citizens of modern organized states is unmistakably reflected in their individual and social behaviour we are asked to study 'economic behaviour' in isolation from all other aspects of life. When the constantly changing environment of our business life is impelling people to seek advice from the Doctors of Economics we are admonished not to give advice lest we prove unworthy of our academic robes. When not one of the basic assumptions of the prevalent economic doctrine is free from serious challenge, when economic problems of the highest magnitude call for mobilization of all the wisdom that is available, and when a new international order based on a legitimate integration of national modes of life appears to be the only conceivable barrier to the disintegrating forces of armed nationalism, for the economists to sit back and weave their theories and draw their graphs on assumed conditions would be the limit of fruitless academic isolationism.

The recent war, which was suddenly terminated on account of the new military situation created by the use of the Atom Bomb, has roused a large number of economists out of the torpor of scientific abstraction and has brought them into closer contact with the realities of life. It is to be hoped that this wartime experience has done the theoretical economist lasting good and that he will not easily relapse into his accustomed negativism and fruitlessness. If economics is to be saved from such an ill-deserved fate we must all think out afresh the fundamentals of our science so as to make it more truthful and more serviceable than it has been in the recent past. In the hope of initiating discussion among fellow-economists on this all-important issue of a reinterpretation of the nature and scope of our special studies I propose to present a few relevant points for their earnest consideration.

A perusal of the works of some of the later day economists who enjoy the reputation of being advanced theorists, reveals two marked tendencies—a desire to narrow down the scope of legitimate economic studies and a growing concentration within even this narrower field, on matters that can be reduced to exact measurement. If these tendencies are not the outcome of a genuine misconception of the real nature of economic behaviour they are, I suspect, the result of an inferiority complex. A contrast is consciously or unconsciously traced between the definiteness of the findings of the natural sciences and the lack of this quality in much of the work of the economists. Now it is doubtful whether the alleged exactness of the physical sciences is really so all-pervasive in their findings as is apparently assumed. Even in the so-called exact sciences there is a considerable field of uncertainty and tentativeness which yields only gradually to a double process of analytical as well as synthetical inquiry. Moreover, it will never do to forget that even the exact sciences had a past of great uncertainty and if only we persist in patiently studying all the significant parts of economic experience

we also shall have a future of as great an exactness¹ as the nature of the subject matter would warrant.

The sense of inferiority or impatience is therefore not justifiable in the light of the history of the exact sciences themselves. But even in its most advanced form, it may be doubted whether economics will ever approach that degree of precision which advanced physical sciences now show, in respect of their conclusions. As a biological specimen man may be distinguished from the rest of creation and all men may be described as individuals of one species of a bigger genus. But in their behaviour, especially social behaviour, men show such a bewildering variety of mixture of motives and values, not only among different individuals and groups, but even among different manifestations of conduct of the same individual that the rigid isolation of the objective and the method on which depends the theoretical superstructure of a human science cannot be too trustfully assumed. The singling out of a particular motive and of a single appropriate method of expressing it in action can at best be a theoretical device, not a truth, either of theory or of practice. The only truth that we know is the complex behaviour of man, and while for purposes of intellectual speculation we may assume the non-existence of other than the selected motive, in fact the assumption must always be conceded as unproved, and therefore not a truth in the proper sense of the word.

The sub-divisions of social studies are thus a matter of speculative convenience and not of actual experience. If sufficient allowance is made for this basic limitation of what passes as higher theory we would be less stand-offish in our attitude towards the postulates of sister sciences. A claim of neutrality towards non-economic motivations is not more than a convenient pose and more often than not it is either not sustained till the end of an argument or is actually disregarded. If the object of our study is the economic behaviour of men living in society all that concerns either the causes or the manifestations, and effects of such behaviour just be considered as legitimately belonging to the proper field of study for the economist. Such an inclusive attitude towards the proper scope of economics might offend against the sense of neatness of some scholars, but if these are out to study all that there is of economic experience they ought to follow where their subject matter naturally leads them. In this pursuit they might frequently find themselves in unexpected company and all that they witness may not be as ordered or as systematic as they might wish it to be. But if they worship the truth they ought not to allow their sense of order and neatness to get the better of their preference for reality.

Equally noticeable, and no less regrettable, is the desire to exclude from serious economic study all aspects of economic behaviour about which 'scientific' *i.e.* logical demonstration is not possible. If this attitude of mind is honestly sustained throughout the work of economists, precious little would be left in the achievements of the most eminent among them that could be called scientific. Even in purely analytical² studies so much depends at every stage on the judgment of the observer and the reasoner that no statement coming from an economist can be considered as having any better than his

1. "An educated person should expect to obtain precision in each branch of study to the extent which its nature permits. —Aristotle, *Ethics*.

2. "Even on purely theoretical matters there is so much division of opinion that judgments even regarding 'what is' are no less personal than judgments regarding 'what ought to be.'" E. R. Walker. From *Economic Theory to Policy*, p. 210.

own individual authority. Nobody, not even the 'purest' among economic theorists, will acquiesce in such a general surrender of all pretence to generalized truth. It is, therefore, wrong to set up an absolute standard of scientific demonstrability in economic propositions, especially those which concern the experience of large masses of people. Thus while considering the economic effects of equal distribution, to adopt the post of scientific unconcern³ on the ground that equal capacity for happiness is more an ethical value or an act of will than a demonstrable principle of science is to ride a hobby horse for more than it is worth.

In the face of the complexity of economic situations and of economic behaviour we cannot afford to be too selective about our material. The material is there offered to us by the economic experience and needs of our fellowmen, and we have to work on it with the help of such technique as is available. Because a particular aspect of economic experience does not fit in with a preconceived technique⁴ it does not in fact cease to be important. It is not possible to lay down precise laws of causation over the entire field of economic activity. A large and significant field will always have to be covered by comparatively vague and cautious statements which suggest a causal relationship which practice alone can either confirm or refute. An economist ought not to shy at the prospect of offering what to him appear as reasonable explanations under the circumstances, though he must, in the best Marshallian style, always guard himself against a terminological inexactitude.

Notwithstanding the professions to the contrary, the limits of economic science are purely conventional. This is amply proved by economists of the scarcity school con-

3. The following extracts from a contribution to the *Economic Journal* (Dec. 1938) by L. Robbins' are interesting in the present context :

My own attitude to problems of political action has always been one of what I might call provisional utilitarianism.

But as time went on, things occurred which began to shake my belief in the existence of so complete a continuity between politics and economic analysis. I never thought of abandoning my provisional utilitarianism as a working political philosophy. But I began to feel that there were profound difficulties in a complete fusion between what Edgeworth called *the economic and the hedonistic calculus*. I am not sure how these doubts first suggested themselves; but I well remember how they were brought to a head by my reading somewhere — I think in the works of Sir Henry Maine — the story of how an Indian official had attempted to explain to a high-caste Brahmin the sanctions of the Benthamite system. "But that," said the Brahmin, "cannot possibly be right. I am ten times as capable of happiness as that untouchable over there." I had no sympathy with the Brahmin. But I could not escape the conviction that, if I chose to regard men as equally capable of satisfaction and he to regard them as differing according to a hierarchical schedule, the difference between us was not one which could be resolved by the same methods of demonstration as were available in other fields of social judgment.

No one who had ploughed through the turgid mass of German work in this field could doubt the desirability of keeping philosophy in its proper place.

I am distressed that anything that I have said should give rise to recurrent dispute which suggests to the outside world a disunity among economists which I am persuaded does not exist; my essay was meant to defend economics from lay misunderstanding, not to provoke new confusion.

4. "If the subject matter of economics is neither more nor less than its own technique, there is a temptation to select problems to which the technique is suited and to protect the beautiful 'engine' of economic theory against the hard facts which might dull its cutting edge. This type of narcissism has exercised too great an influence over the development of economics in recent years, despite Marshall's warning to be on our guard lest we should fall tacitly into the fallacy of regarding what is tractable to our intellectual machinery as equivalent to what is important. — E.R. Walker (*Ibid*), pp. 56-57.

fining themselves in fact to the operations of the principle in the traditional fields of business, *e.g.*, the market, and the producer-consumer relationship via exchange. So great is the weight exercised by tradition in this respect that two obvious developments of economic life have for the most part escaped incorporation into contemporary economic science. The development of State initiative and direction in matters of economic import is so steady and so voluminous even in the non-socialistic countries that any formulation of economic laws which is primarily based on individualistic assumptions has to be judged as seriously inadequate. Like the law of competition, of monopoly and of imperfect competition the time is more than ripe for outlining an economics for free, authoritarian and mixed societies. The elements of social demand, political coercion and administrative action that characterize a collectivist society cannot be bundled into the category of imperfect competition. A new theory covering all the significant facts of normal economic life in an authoritarian and a mixed society will have perforce to be formulated. The sooner the economist realizes that the free society assumed by all his predecessors and by most of his contemporaries is vanishing before central direction the better will it be both for the accuracy of his findings and the helpfulness of his conclusions. Even in the sphere of the traditionally free market, the existence of unsuspected factors is being more and more vividly brought to our notice. The assumed existence of the motive of maximization of gains on the part of the seller and of maximizing satisfaction on the part of the purchaser is seen to be too wide of the mark of reality. Not only are physical limitations imposed in the way of an unrestricted operation of these motives but even the psychological attitudes on which the assumed motivation is based are seen to be not of a uniform and sustained, but only of partial and intermittent operation. In other words not only do non-economic motives play a significant part in the working of the market⁵, but several influences external to the market are seen to have a determinant influence on the operations within the market. Pressure exercised by powerful influences in a capitalistic society and administrative action taken by an economically activated state are obvious cases in point. Even the theory of market operations in a predominantly individualistic society would thus appear to be in need of restatement.

The limitations on the scope of economic studies can only be those which arise out of actual economic conditions. The would-be economist ought not to place self-imposed restrictions on what does and what does not concern him. Anything that affects the creation or use of material resources automatically concerns the economists. For the more systematic and fruitful utilization of available knowledge, as also for giving full scope to the special aptitudes and interests of individual economists, a broad departmentalization can be introduced with great advantage. Thus an accurate and exhaustive description of economic phenomena and their interpretation in the light of significant factors would form a very important part of economic studies. A survey of this type will not fail to yield material for certain broad generalizations of causal relationship which would suitably form the analytical part of economics. In so far as economic action is purposeful it will always be necessary to formulate suitable methods of successful economic planning, individual or collective, and these will be the legitimate contribu-

5. "A theory of extra-market operations must supply a principle of choice of significant facts and a conceptual scheme in the same way as a theory of market operations."—E.R. Walker (*Ibid*), p. 109.

tion of the economist to the formulation of economic policy. Description, analysis and policy, though well-marked, are yet different aspects of the same interest, and in whatever manner we may name each one of these there is certainly no justification⁶ for characterizing one among them as the science and dubbing the rest as merely allied, and by implication, unscientific or non-scientific studies. The two essential attributes of science, namely, a high correlation among the causal factors and their expected effects, and internal consistency of the system of thought based on these, are shared by all these departments of study in rich measure.

The singling out of analysis as based on some axiomatic propositions such as the law of demand, gives to the selected study an air of scientific precision which, in fact, the subject matter of study does not possess. By contrast it creates a feeling of distrust for the rest of the subject which also is equally unmerited. A persistence in this practice of abstraction analysis and deduction without sufficient caution as to the very limited foundation on which it is built and as to the very restricted purpose for which it can be used, leads to a glorification of 'Theory' for its own⁷ sake. It is exactly this type of unrealistic theory which takes so much effort to reconcile with experience. We are then forced to distinguish between theory and practice thus marking ourselves out as after all not being in the same class as the natural scientists whose neatness and precision some of us are eager to emulate. It is so very important in all social sciences to keep to reality that analysis, description and policy⁸ must be given equal importance. Analysis will justify itself only in so far as it is firmly based in economic fact and is helpful in the formulation of economic policy. The type of analysis which does not answer this test is worse than an unnecessary overgrowth, it is a wasteful indulgence.

This reference to policy is bound to jar upon the ears of those who have hugged the idea that economics is a positive science again may I say in parenthesis, a symptom of that inferiority complex from which the economist occasionally suffers in his self-instituted comparison with the natural sciences. All sciences are positive up to a stage, so long as they are finding out the truth, but no science connected with human behaviour can either understand this truth perfectly or fulfil the purpose of this quest for truth until it has illuminated the path for more enlightened behaviour. It has been often said that economics deals with the rational behaviour of human beings in a particular aspect of their social life. Of this alleged rationality I shall have something to say at a later stage. But granting that economic behaviour is rational it is also of necessity

6. "The time has surely come to consider a fresh (and with the help of our predecessors as well as our contemporaries) what is the proper scope of economics. There are, as I see it, three distinct fields of activity: the logical analysis of the causation of economic processes; the description, interpretation and measurement of economic phenomena; the formulation of economic policy. The first we can hope to make scientific, in the sense that with regard to its strict logic we ought to be capable of achieving indisputable agreement. The second we may hope to make more nearly scientific than it is, but *pace* Dr. Tinbergen and others working in that field, I doubt whether the number of variables and their everchanging timelags can be reduced to such scientific order that the human judgment will disappear from their interpretation. The third—the formulation of economic policy—is not scientific, if by that we mean that our own judgments must form the "most important constituent."—Austin Robinson, E. J. Vol. 52 (1942), p. 241.

7. "Present-day economics suffer from 'theoretic blight, that is from a tendency to develop theory for its own sake even if this involved using unrealistic postulates and an increasing remoteness from the real world.'"—E. R. Walker (*Ibid*) p. 48.

8. Prof. D. R. Gadgil, Presidential Address, Indian Economic Conference, 1941.

purposive, as no behaviour can be rational except by reference to a purpose. While we may not prescribe a purpose of our own, an integration of purpose and behaviour, of ends and means, is so obviously characteristic of economic life that we cannot afford to ignore its existence. The attempt to distinguish between a science of economics which supplies a technical understanding of the characteristically economic forces at work and an art of economics which discusses practical action and policy is doomed to failure, as such a separation cannot in fact be sustained without great loss of truthfulness to the science and of efficacy to the policy.

It would be a bold, certainly an unconventional, but all the same an essential step to suggest that the scope of economics should be widened⁹ so as to extend beyond the workings of the system of organized exchange in advanced countries, and that it should take in as its legitimate field all the manifestations of economic behaviour found in different social systems, and more often than not, found intermixed with other types of behaviour. To such a comprehensive study of economic behaviour we must address ourselves in a purposeful fashion, the purpose being one other than to know the truth, the whole truth. In such a study ample room will be found for many aspects of investigation, historical and practical, which are now relegated to neglected corners of economic literature.

In view of this proposed expansion of the sphere of economic studies it will be interesting to examine the two basic postulates of current economic science. The first postulate relates to the nature of the economic criterion.¹⁰ It is assumed that each individual has his own scale of preferences among the alternative uses to which he may put his limited resources. Action or behaviour in pursuance of this scale of preferences would be justly termed economic, and while selecting significant aspects of human behaviour for the study of the economist such action would be selected as relevant. Now this statement of the economist's criterion of significance is sound as far as it goes. But judging from the limitations followed in practice by a large number of economists it does not appear that the criterion is unreservedly followed. While it is true of an individualistic economy that a large part of its economic activity originates in and is conditioned by the scale of preferences¹¹ that the individuals set out to pursue in a socialized community the formulation of social or collective preferences act as an important limitation on the working of the economic system. Even in a predominantly individualistic society the extent of collective formulation of preferences and of economic action in pursuit of the same is on the increase.¹²

9. "A disregard for the conventional boundaries of economic theory may pay handsome dividends, not only in the form of greater certainty on specific issues, but also in the enlargement of the economist's general competence. —T. R. Walker (*Ibid*), p.10.

10. "The economist is entitled to his criterion of individual preference. . . . Without his own criterion he cannot choose among the infinite variety of possibilities. . . . Without his own criterion, he is entirely stultified. With it he can give advice of precisely equal validity and freedom from ethical bias whether a specific end is furnished to him or not."—R. F. Harrod's Address to Section F of the British Association, 1938.

11. "If an individual prefers a commodity or service X to Y, it is economically better that he should have it. Similarly if the individual prefers work X to Y, or dislikes it less, it is economically better that he should do it. The economic good is thus the preferred."—R. F. Harrod (*Ibid*).

12. The freedoms announced by the Atlantic Charter are a prominent example of collective formulation of preferences on an international scale.

As a first modification, therefore, of the postulates of economics we have to include collective along with individual preferences, in their appropriate sectors of permissible action according to the prevailing social system. Many aspects of social conduct which on the purely individualistic formulation of preferences would be considered as falling outside the scope of economics would be naturally included in economic discussion about a mixed or a collectivist society. A similar modification, even on a larger scale, would seem to be necessary in regard to the other basic assumption of traditional economics. Hedonism, the instinct to maximize pleasure and to minimize pain, has indeed gone out of vogue as an axiom of normal human behaviour. Starting, however, from the problem of scarcity and of rational action in the pursuit of a scale of preferences in the face of such scarcity, a doctrine, substantially a mere paraphrase of the apparently discarded hedonism, of maximization of gains is featured as the natural goal of economic conduct. Hedonism had at least the pleasure and pain instinct of the animal to build on. But this doctrine of maximization¹³ is little more than an oversimplified rationalization imported from outside into a motivation which is too complex for the effort of facile abstraction.

The pleasure-pain or income-cost calculus is a calculus only in name. Though rationality and purposeful action are not absent from economic behaviour, the extent and the manner of employment of the principle of choice is conditioned by various significant factor of racial, environmental and social character. Nothing can be more definite than the observed limitations on the maximization instinct placed either by inherited or socially imposed modes of behaviour. It is not true even in comparatively advanced countries that the consumers and producers exert themselves to maximize their gain. A recent attempt on the part of an Oxford¹⁴ group of researchers contact men of practical business and to learn from them the motivations and methods of their economic acts has been an eye-opener. The producer, no less than the consumers, while not devoid of the natural desire to make the best of his opportunities, is not found to pursue this desire indefinitely. Moreover, even this desire operates within the framework of socially accepted and communally enforced norms of conduct. In fact, the fiction of an economic man is inadequate even for purposes of economic analysis as even in the sphere of economic activity, social man is essentially an institutional man.

Once the economic incentive is abandoned as a biological maxim the individuals in each group are found to be endowed with it in differing degrees and are found to operate under such differing forms of racial and institutional attributes that the claim to a universalized formulation of even the basic principles of economic behaviour is found to be scientifically untenable. What the German historical or the American institutional schools perceived as a special departure from the assumptions of the

13. "There are communities where it is the exception rather than the rule for an entrepreneur to know how much profit he makes. For instance, one consequence of wartime price control in Australia is likely to be a revolution in book-keeping. Many readers, for the first time in the history of their firm, have now found an incentive to keep accurate accounts."— E. R. Walker (*Ibid*), p. 89.

14. Thus Mr. Harrod writing about the results of the Oxford economists' direct questioning of a group of businessmen says : "It has been impossible not to be struck by the devastating completeness of entrepreneurs' uncertainty about matters usually assumed to be known in the textbooks." *Oxford Economic Papers*, No. 2, May 1939, p. 5, Quoted by E. R. Walker (*Ibid*), p. 67.

English school is really a law of universal experience. For in no nation can we assume the existence of the economic man. Indian¹⁵ economists have for more than half a century emphasized the special importance of Indian sociological features in an adequate understanding of our own economic problems. Very recent investigations¹⁶ into the cost structure and income distribution, in organized no less than in unorganized industries, have again brought out vividly the dominating importance of social and institutional, over the purely economic factors.

The abandonment of the postulates of hedonism, of maximization, of the economic man need not cause any despair among the would-be economic scientist. In interpreting the nature of economic experience in each community at any given time we must be alert and penetrating enough to notice the existence of other than these assumed motives. Such an attitude of caution and readiness to pick up fresh impressions is all the more necessary as neither the individual nor the community can be assumed to be static even in these non-economic contexts. A constant process of conscious and unconscious adaptation between opportunities, needs and behaviour is going on among members of a human community, though the pace and the manner of this change may not be identical in differing places and epochs. In fact, I am convinced that it is wrong to think of economics as being based on any invariable instinct¹⁷ or even principle of human conduct. Habit rather than choice, will rather than reason, is the basis of economic conduct, in common with other aspects of human behaviour. Economics is not a science¹⁸ only of correct or rational human conduct. If I may hazard a comparison it is like grammar; it observes, classifies and generalizes human usage in a particular part of human activity. There is no logic of economic behaviour. There is only a grammar of economic activity.

Logic is the science of correct or rational thought. Its purpose is not to describe how men actually think, but to outline the principles of rational thinking. In a field like that of complex social behaviour, of which economic activity is a part, we cannot

15. "If in politics and social science, time and place and circumstances the endowments and aptitudes of men, their habits and customs, their laws and institutions, and their previous history, have to be taken into account, it must be strange indeed that in the economical aspect of our life, one set of general principles should hold good everywhere for all time and place, and for all stages of civilization." Ranade — *Indian Political Economy*.

16. "Similar instances could be easily multiplied. There is, however, no virtue in mere repetition. I have for the description chosen only the oldest centres and the most well-established industries, so that it may not be said that an unfair sample was taken or an exaggerated impression was sought to be conveyed. A study of these conditions seems, at least to me, to show conclusively that the assumptions made ordinarily in the formation of the theory of wages and in prescribing policy on the basis of that theory do not hold good in India. — D. R. Gadgil, *Regulation of Wages and other Problems of Industrial Labour in India*. 1943—p. 19.

17. "Psychologists, concerned not with the description of social norms but with the explanation of the development of personality and individual behaviour, have grown increasingly dissatisfied with the instinct theory. Instead of seeking the explanation of human conduct in a few organic dispositions, psychology is turning more and more to the social forces which determine the formation of the personality and modes of behaviour. — E. R. Walker. (*Ibid*), p. 84.

18. "At any rate, for half a century and more in discussion and conversation, though seldom in print, Foxwell propounded the view that economics is not a branch of logic or mathematics, but belongs to the art of managing public affairs by the application of sound reasoning to the whole corpus of experience. — Keynes on Foxwell, *E. J.* Vol. 46 (1936), p. 611.

proceed on the assumption of predominantly or continuously rational motive. Logic has an application to economics in the processes of thought of the researchers and the student, not necessarily of those whose behaviour is being studied. From this standpoint the whole discussion with reference to the proper method of economics is irrelevant. There is only one scientific method¹⁹ for all sciences, including economics. There can, therefore, be nothing blameworthy in a student of economics insisting on rigorous proof and accurate presentation of propositions for which he makes himself responsible. This does not, however, mean that he should refuse to say anything about matters not amenable to such proof and presentation. Much less does it mean for the satisfaction of his desire to conform to scientific form he should assume unrealistic premises as axioms or that he should employ forms of causal representation which do less than justice both to our state of knowledge about facts and about the causal factors. Where the situation is undefined the statement of relationship as also its representation in form, logical or mathematical, has to be indefinite. The show of algebraic elaboration and graphic representation in which an important section of contemporary economists seem to revel are from this viewpoint to be deprecated. Marshall's general reluctance to use mathematical formulae and his insistence on guarding himself in appropriate words against over-generalization are even now to be preferred.

While the method of scientific inquiry is uniform over the whole field of systematic study the degree of success in attaining adequate and exact knowledge are bound to differ according to the nature of the material and to the stage of advance of the science concerned. Close, steady and patient observation is the necessary starting point in all the empirical sciences. A systematic classification, comparison and correlation of observed data will, by logical process, suggest hypotheses which on further observation may either be verified or disproved. Verification will fix the hypotheses as generalized laws, whereas want of proof will mean a further challenge to fuller investigation and deeper understanding. Whereas on the assumption of some generalized premises an imposing body of economic analysis has latterly been built up, the verificatory work has for the most part been neglected. For this reason a good part of economic theory today despite the pretensions forms employed in its statement, is scientifically in no better state than a hypothesis. It appears to me that if only the crucial importance of verificatory work in the progress of economics as a science is really appreciated there are no insurmountable difficulties in its way. Even the exact sciences, now so called, were in their infancy not so exact after all.

The complexity of the subject matter of economics, which is often alleged to be a reason for the lack of practical verification being pursued as a necessary corollary to formulation of theory, is in fact the resultant effect of the combined operation of a number of simple causes that need further investigation. It may be found, if the necessary verification is steadily pursued, that some of these causes fall outside the scope which the economist had defined for himself at the commencement of his investigation of an

19. "The task of the social scientist is therefore the same in all essential principles as that of the natural scientist to apply logical processes to the data of observation, and to attempt the verification of hypothesis upon the assumption of continuity, and the determination of general laws, of all events. — E.F.M. Durbin, *E. J.* Vol. 48 (1938), p. 190.

'economic' problem. In this situation nothing is left for him as an honest student beyond either widening the scope of his inquiry or suspending judgment pending closer cooperation with intellectual fellow-workers to whom a study of the additional factors may rightly belong. The last thing that an economist, thus based by reality, is justified in doing is to abstract himself from the disturbing factor and to proceed to state a proposition which is based on inadequate and unrealistic foundations though it may have the appearance of an exact law.

Another excuse usually offered for lack of sustained interest in verificatory work, *viz.*, the non-availability of the experimental method is equally unsatisfactory. We are told that we cannot experiment in social affairs, as the actual life of human beings living in society cannot be played with as though they were sociological guinea-pigs. This is a plausible but rather an overworked excuse. To a certain extent, as recent experiments in state planning have proved, experimentation is not altogether ruled out, if only we have the courage of our intellectual convictions. In fact, such a prospect of verificatory experiment on our fellowmen will impart to the formulations and pronouncements of many of our higher and purer economists the much needed introspective caution that they lack. Even where experiment is ruled out by the nature of the case, observation of actual experience in the light of prophetic enunciations would supply the place of experiment. Without wishing to under-estimate the difficulties in the way of a routine application of the usual methods of verification I must here place on record my deep conviction that unless the economist, like his compeers in other sciences, is made responsible for verification he will never attain that prestige as a scientist that he legitimately seeks. In any case I am convinced that he is never going to reach that summit of scientific recognition by neglecting the challenge of circumstantial situations and by relying on mathematical formulae which have not more meaning than the letters and the symbols used can give them.

In the sphere of currency, interest rates and generally the group of problems connected with the monetary approach to the study of trade cycles, some verificatory work has already been done. The results of such work have proved to be almost entirely negative. As a prominent instance may be mentioned the work of Dr. Frederick R. Macaulay, on behalf of the National Bureau of Economic Research, New York. Dr. Macaulay addressed himself, in a spirit of painstaking inquiry, to the movements of interest rates, bond yields and stock prices in the United States since 1856. Dr. Wesley C. Mitchell, Director of Research, thus summarizes the verificatory significance of the project: "There has been not a little speculation among economists about such matters as the extent to which forecasts of future price fluctuations influence the present demand for loans. Out of such speculations have been spun theories concerning the relations among the movements of prices, interest rates, investments, volume of credit, and production. By taking the clear test case of bond yields and short-term interest rates, both considered with reference to the same period, Dr. Macaulay is able first to demonstrate what the mathematical relationship between the two sets of movements would be if men forecast the future correctly, and second to demonstrate that the actual relationships are commonly of an opposite sort. Though the theoretical relations that **would** exist between other paired series if the future were accurately known, are less simple in their logic, he is able to show how dubious are numerous explanations of the actual relations that credit men with greater ability to foresee the future than they possess."

Dr. Macaulay himself formulates his theoretical judgment of the observed behaviour of interest rates as follows: "Most theories of why interest is paid at all fail to explain the facts of the actual market not primarily because the theories are non-quantitative but for a more fundamental reason. They commonly assume of degree of rationality and capacity in the conduct of human affairs that does not and cannot exist." The results of such verificatory work as has been done in the group of monetary problems is thus to bring out the real position of present-day economic science. It is little more than a series of connected propositions which would hold true if the behaviour of men in business was guided by the assumed principles of rationality and intelligent anticipation the actual behaviour so far differs from the assumed one not only in degree of rationality and intelligent anticipation, but also in being intermixed with other factors, that general, *i.e.*, speculative economics completely fails either to explain or to forecast economic behaviour in actual practice. If this is not challenge enough to the refined and the mathematical economists either to prove their theories or to modify them, one fails to see any hope for economics as a science at all.

So much for the field of economic problems where verificatory work has already commenced. But as regards the basic theory of economics, *viz.*, the theory of value and distribution, no verificatory work worth the name has yet been attempted. I am sure that even first step in verification of the marginalist theory of value and distribution would be enough to show up the inadequacy and the utter unreality of the basic theory. The marginalist school held a certain academic and intellectual pre-eminence among economists from which even now it has not been dislodged. By implication this school explained the distribution theory as an application of the general price theory of marginal utility or marginal equilibrium. Though the economists were careful to utter a caution that their findings have no ethical bias, and that equilibrium is just equilibrium, the implication on which the interested parties and the unwary reader invariably relied was that in a free-exchange economy the factors of production as a rule get a return which is proportional to their contribution to the joint product. A feeling of complacency was created by the prestige attaching to this theory, and reformers, both academic and social, had to fight hard against the inhibitions created by marginalist assurances.

So far as the theory of distribution is concerned there is almost a complete void. Rents, wages, profits are all seen to be extremely complex categories emerging as a result of a number of financial, institutional and psychological factors. The attempt to replace the marginal productivity theory of interest by the purely monetary or the so-called liquidity preference theory has completely failed to establish itself either by logical reasoning or by actual performance. The results of actual investigation of interest rates on the American stock and money market referred to above, are very significant in this respect. The failure of marginalism to explain the different levels of the earnings of the factors of production is matched by its unserviceableness in the sphere of prices. The free market in which rational action in pursuit of maximization produces a general equilibrium of ratios of preferences is little more than a fiction. Monopoly is no longer an exceptional case, and the category of the rest to which imperfect competition has been relegated is found on closer analysis to contain an almost innumerable variety of particular cases. The whole technique of marginalist analysis is in urgent need of being replaced by more realistic formulations of the theories of value and distribution.

Actually, however, we find little more than new variants of the old method of abstract rationalization put into the place of discredited theories. In the approved Rocardian manner, as in the case of his theory of rent, or *a la* Marshall, as with his notion of the representative firm, purely abstract and independently rationalized notions and constructions are superimposed on facts of experience, and if the fit of the technique is not satisfactory, as usually it is not, instead of calling into question the theoretical apparatus an attempt is made to ignore such of the facts as are found to be inconvenient for the success of the technique. Lest this might appear to be exaggerated, or unnecessary criticism, attention may be drawn to such new devices as are expressed by the imposing titles of liquidity preference, multiplier and uncertainty bearing. As aspects of economic experience for which we ought to seek a verification, these notions have real value. But their utility stops at that; by their own neatness of definition they cannot explain away the complex reality that interest rates, levels of economic activity or the profits of industry possess in themselves.

What I have said about the scientific necessity of verification has a vital bearing on the formulation of theoretical technique. In adopting notions and techniques of theoretical reasoning the necessary responsibility of being able intelligently to explain a real experience must be recognized. If this is not done and our notions have no more meaning than what by definition we give to them, the imposing results of elaborate reasoning in which these notions figure as the chief counters can be said to have only formal, but no real, validity. Howsoever bracing such an intellectual exercise may be, I do not think that the world either of truth seekers or of practical men has any use for it. Our notions must be taken from practical life, as the natural scientists take theirs from facts and things of experience. The formation of concepts tends to be verifiable in proportion to which it is based on reality. By deliberately abstracting from reality in our endeavour to have neatly defined and logically arranged categories we only ensure that the results of our reasoning are utterly irrelevant to the actual economic experience. Whereas past experience should have put us on our guard against a further continuance of this tradition of abstraction, its perpetuation seems to be assured by the ever-increasing number of almost fictitious devices, such as the indifference curves, with which we are being flooded. I for one am convinced that no economist should be permitted to use, except perhaps for his personal edification, any concepts which in material respects differ from realities of experience. Nor should he be permitted to claim validity for a theory unless its truthfulness is verified by facts.

While I myself strongly subscribe to the view that no science can be justified in claiming to be excused from the full implications of the logical process, I have nothing to say in criticism of those who feel that they might discover truth by more simplified methods. The proof of the pudding is in the eating, is an adage that may be applied to intellectual no less than to culinary efforts. If the results are borne out by experience the causal relation may be taken to be substantially established, though we might be mystified by the process of arriving at the result. But I repeat that there can be no truth that is not borne out by experience. As Ranade²⁰ said long ago the standard of nature, *i.e.*, experience is the final source of our knowledge and the only trustworthy guide to our action. If all, or a significant part of our experience, is to be treated as

20. Ranade, M.G. —*Essay on Indian Political Economy*, 1892.

exceptional to the main theory of a science, this theory may be justly dubbed, as Taussig did, cob-webs of the mind.

Mine is a plea, I hope I have made myself clear on that point, not for the formal appearance of logicity in the presentation of the conclusions of economics, but for the real and substantial logic of the propositions of economics, which must be based on the truth of observation and which must be borne out by the truth of experience. A very influential section among theoretical economists has tried to attain formal logicity by assuming the non-existence of many things which are really vital to what we call economic behaviour or economic problem. Thus while some have guarded themselves by specifically declaring that economics by itself can have no objective and that the economic good is none other than the preferred good, in the work of best known economists such as Marshall and Pigou²¹ the relief of poverty has been specifically mentioned as the goal of economic studies. Without wishing to reopen the whole question as to whether economics has normative side at all, whether it can have an objective it is pertinent to observe that the more vital question is, not whether the economist has an objective but what is the objective of economic action in so far as it is purposive. Maximization of welfare, for the individual in an individualistic economy, and for the community as a whole in a collectivist economy, have been assumed to be axiomatic statements of such a goal. Any other goal such as defence, in Adam Smith's famous dictum, has been treated as exceptional. Defence and opulence are now so closely intertwined in the evolution of industrialism, that against the background of advancing technology it is now at least as correct to say that power²² is the end of economic effort, as it was some time ago to describe the end by the world welfare. If the two things in essence meant the same thing the variant mode of expression would not introduce a new bias in economic calculation. As, however, much of the activity entailed by power-economics is from the standpoint of welfare really 'uneconomic', a major irrationality has been introduced in the functioning of integrated economic systems of the present-day. All the well-marked tendencies of the times point towards a further extension of power-economics as a handmaid to power-politics, and how much the economic institutions with which we are accustomed will suffer from this new direction of social objective it is now too early to say. In this all-important respect the economic destiny of mankind is hanging on a thread between rival ideologies which are too well-known to need mention here.

While almost all the text-books on economics and even advanced writings on the subject make explicit statements to the effect that economics is concerned with things as they are, that it is no part of an economist's task to prescribe remedies, that, further, economics has nothing to do with political or ethical aspects of things, most of the economists including authors of such exclusive pronouncements declare themselves with obvious emphasis on just the matters that they as economists considered as debarred. Leave alone the frankly political work of Hayek²³ on planning, which he considers to be sure

21. "The lives of the many are darker than they need be; herein lies the impulse to economic investigation. The removal or at least the mitigation of the evil is the goal of the economists' search." Pigou, *Unemployment*, 1913.

22. Hawtrey R. G. — *Economic Destiny*.

23. "It is now often said that democracy will not tolerate 'capitalism.' If 'capitalism' means here a competitive system based on free disposal over private property it is far more important to realize that only within this system is democracy possible. When it becomes dominated by a collectivist creed, democracy will inevitably destroy itself. — F.A. Hayek, *The Road to Serfdom*, p. 52.

Road to Serfdom, but the sustained pressure of Robbins,²⁴ purest of economists, against the extension of governmental control in economists' affairs is sufficient to show that the performance of economists of the exclusive school believes their professions. If we are told, as occasionally is the case, that this part of the economists' work is done not in their capacity as economists but as citizens the pertinent question arises as to what is in their own view their special qualification to utter and propagate these ideas. Obviously it is their special knowledge of the causes and effects of particular types of economic behaviour. Rather it is their own version of these causes and effects. Such a natural, almost irresistible conduct on the part of economists proves that the attempt to draw a very restricted and definite boundary about the scope of economics is neither inherently justifiable nor practically feasible.

In all social studies the urge of pressing problems²⁵ is more important than the preconceived notions of abstract speculation. The disparity between the precept and the practice of economists just noted is an example of this truth. Another peculiarity of economic thought, which is not wholly complimentary to the economists, is the post-facto character of a good deal of theoretical progress. Unless an event or a development presses itself on the attention of the economist, rarely does he theorise about it. In this sense the work of most economists is the product not only of their times, but to a large extent also of their own environment. The recent developments in the theories of imperfect competition, the trade cycle and the nature of profits are an example of this feature which is almost all-pervasive. To a certain extent such a post-facto interpretation and rationalization is natural. But I feel that the economists as a class have been much too passive and inert in this respect. To study things as they are, not to prophesy, not to prescribe — are the kind of inhibitions that have hampered the progress of economic thought. In a world that is constantly changing, this unwillingness to move with the times has appreciably reduced the usefulness of the economist. If the economists are only going to tell us, and particularly teach us, the why and the wherefore of things that prevailed the day before, there can be little social benefit from the study of economics. That the main body of economic theory still clings to the laws of static equilibrium in a mainly competitive world takes away most of the justification for its use in the classroom. I am sure, many teachers have felt like myself a sense not only of unreality but of guilt while expounding to the students of today the laws of an economic system that, we at the same time assure them, is well-nigh past.

A mere qualification by reference to new trends is hardly a compensation for the inherent impropriety of mistaken emphasis. The swing away from competitiveness has been obvious at least since the early years of this century, and still not only do the economists assume its existence for the elaboration of their theories but the

24. "If recovery is to be maintained and further progress assured, there must be a more or less complete reversal of contemporary tendencies of governmental regulation of enterprise." — L. Robbins, *The Great Depression* (1934), p. 193.

25. "The test that we must apply to economic theory is not whether its results are contained in its premises but whether it is a serviceable instrument in the study of concrete problems." — E.R. Walker (*Ibid.*), p. 47.

purest²⁶ amongst them actively canvass for its retention. Profit-making by individuals and firms which is the chief outward expression of the competitive principle has been steadily assailed by new policies in the spheres of taxation, monopoly, control, state enterprise and social services. The combined effects of technological changes, which bid fair to remain a constant feature of our economy, and of a steady widening of the scope and extent of public action in restraint of private enterprise are too significant for economic scholarship to ignore. Both by way of analysis and prescription the economist, if he is not to lag far behind the happenings and the needs of the times, must concern himself with the implications of collective economic action.

Either by the personal choice of individuals or by the collective choice of society, human activity in the field of raising and using material resources has to be planned as rationally as human nature and environment would permit. The dominant position occupied by technological instruments in the functioning of the economic system makes it increasingly capitalized, though not necessarily capitalistic. This involves economic action spread over time. The study of short-and long-term effects, supplemented by transitional periods, is only the beginning of a new and powerful interest in the laws of economic change or development as such. Even the trade cycle theories are engrossed with the notion of equilibrium, its maintenance, causes of disturbance and eventual restoration. To borrow the language of medical science most of the current study of economic fluctuations partakes of pathology rather than of physiology. Change and development, which are signs of normal economic health, are for the most part neglected. With constant technological progress and purposeful social direction, however, the need for a satisfactory theory of economic development has become paramount.

It is clear that a dynamic theory concerned with a succession of economic situations, rather than with a mere alteration, has been attracting an increasing amount of attention. Still the paucity of such works as J.R. Hicks' *Value and Capital* reveals the general neglect of this really significant approach. Among the classical economists Malthus and Ricardo had both a vivid perception of the inherent tendency towards change possessed by economic forms. But their work in this sphere suffers from treating the changefulness as being due to some single natural cause, falling according to them outside the scope of the economist. Malthus, as is well-known, was engrossed with the natural law of population. Ricardo's obsession was with the falling and differential fertility of land. Increasing rents and declining profits, inevitable economic results of these natural conditions, would according to Ricardo lead to a steady economic change. Among well-known thinkers Karl Marx was the first to enunciate a law of economic change as economic change. That forms of production have a logic of their own and that one stage of production technique, having conditioned its appropriate

26. The main thesis of L. Robbin's *Economic Planning and International Order* is that plan of centrally planned economy is bound to be less efficient in its use of resources than a 'liberal' economy. The book ends with the following summary of the main argument of the Essay. "The root of our present difficulties is not some inherent tendency to economic catastrophe but a political structure which has outlived its utility. Not capitalism which, rightly conditioned, is a safeguard of liberty and progress, but nationalism, which tends to poverty and conflict, is the cause of our present distresses. What the world needs is not the socialist revolution, which, on every reasonable computation of the probabilities, would only develop still further the contradictions of nationalist separation, but the liberal reforms which would create a framework within which these contradictions would not be permitted to emerge. p. 327.

social and cultural pattern, evolves into its next succeeding stage which also is similarly conditioned are the substance of his famous Materialistic Interpretation of History. By singling out the economic factor and, even within the sphere of economic life, by naming forms of production as the significant agent of change, and thus, by implication, excluding the creative power of human will, Marx restricted both the validity and usefulness of his doctrine. Among later day economists may be mentioned Schumpeter²⁷ who feels that technical inventions are the most significant cause of economic change, and, secondly, Bertil Ohlin who gives the palm to the steadily increasing tendency towards central organization and control.

It is for future researchers to lay bare all the causes and implications of economic change which would be a vital concern of those who direct economic life. For us it is enough to start with the inescapable fact of the impermanence of economic conditions. It is not enough, as used to be done till recently, to classify the different patterns of economic or socio-economic conditions and to suit differing economic theories to them. Nor would it be adequate to follow the trail of any single or limited number of factors as has been done by authors just mentioned. We have to take note of all the significant conditions of economic life and then try and study, as well as we may, the causes that lead to changes in each one of these. No doubt many of these will be found to be mutually dependent and for a long time to come perhaps there would be considerable indefiniteness about our knowledge of each. How very difficult, if not baffling, such a study is likely to be, may be illustrated by reference to our state of knowledge about population. By comparison with the other conditions of economic life such as physical resources, technique of exploitation, institutional framework, wants, incentives and preferences, population appears to be the most amenable to a quantitative study of probable change. Demographers and statisticians have been hard at work on the forecasts of population. But even in that paradise of detailed and specialized research, the United States of America, population forecasts have during the current decade gone so far wrong that during no more than half a decade most of the projected rise for the whole decennial period has been accomplished. And all this during a period of war, which according to all customary expectations should have surprised by retardation rather than by such an emphatic acceleration!

What Burke has dubbed 'retrospective wisdom' may indeed in this case appear to be justified. That no correlation can be established between economic or for that matter, any purely physical factors and the movements of population is a thesis that has been urged by several students of the subject, including some Indian²⁸ authors. That is human behaviour in general, including therein economic behaviour, psychological²⁹ factors are more important than physiological, and sociological than economic, is an important finding of modern research in social behaviour of which sufficient note has not been taken by the analytical and abstract school. They still prefer to proceed on the instinct theory which modern psychology has come to discount. There are many more things in the world than are dreamt of in our economics, and if we set out to learn all the

27. *Business Cycles* — Joseph A. Schumpeter.

28. Prof. D. R. Gadgil's Introduction to N.V. Savani's "*The Population Problem in India: A Regional Approach*" and D. G. Karve — *Poverty and Population in India*.

29. *Management and the Worker* — Roethlisberger and Dickson. Harvard, 1939.

significant factors which affect what we consider a legitimate problem in economics, it is our duty to study these other things, or at least to acquaint ourselves with the latest state of expert knowledge regarding them. In many contexts we expressly speak of anticipations, confidence, incentives and such other psychological factors without attempting to verify our ideas by reference to the science concerned.

What is true of our neglect of individual and social psychology is no less true about our attitude towards the implications of ethical conduct. No body desires to load a discussion of economic behaviour by obtruse references to ethical controversies. But efficient or good economic conduct is so much a part of the general code of good behaviour that we shall never attain a full understanding of the former without making due allowance for the latter. War-time behaviour of different classes in different countries in the sphere of economic activity cannot, for instance, be fully explained without reference to the general standards of morality affecting the group concerned. And no body, not even the theoretical economist can deny that difference in this field has materially affected the economic fortunes of humanity. The whole complex of customary modes to which I have drawn attention in the earlier part of my speech would be unintelligible without reference to ethical data. But nine economists out of ten will be shocked at the suggestion that economics and ethics cannot be separated from each other.

Ethical neutrality of economics is, if I may repeat my earlier observation, another of those poses which the economists are wont to assume with a view to assimilating their position to what they consider to be the correct position on an exact science. That the pose is no more than a pose has been made clear by the manner in which economists have freely indulged in commendations and denunciations,³⁰ though they say that they have done this not as economists but as, let us say, amateur moralists or social reformers. The dissociation of cleverness from goodness, of knowledge from wisdom, is a blight from which human civilization has suffered for long. The physical sciences themselves are no exceptions to this general blemish. Their handiwork, as in the case of the Atomic Bomb, has been exploited by warlords, leaving it to the scientists to issue a remonstrance against the inhuman use of their discoveries. The economists would indeed not be surprised at this predicament of their friends of the more dignified sciences. From the days of Manchesterism to those of economic controls we know that so long as we say that the laws and postulates of economics are ethically neutral, we are placing a premium on their use for exactly the wrong type of ends. Not only for a more realistic understanding of economic behaviour but also for a more beneficent use of economic conclusions, it is essential that we increase the points of our contact with the science of ethics.

If the relationship of economics with psychology and ethics is so close as I have been trying to make out, it needs hardly any further elaboration to point out that the border line between the fields of the economist and the political scientist is as good as non-existent, especially when the integration of social life is emerging again into the same prominence in which it was witnessed before the era of individualism was ushered in. The subdivisions of social conduct are purely arbitrary and the more readiness we show to cooperate with the all-embracing science of social behaviour, namely sociology, and the

30. Hayek, *The Road to Serfdom*, p. 31.

[particular studies of our sister sciences³¹ such as anthropology, psychology, ethics and politics, the better will it be for the peace both of our intellect and of our soil. I have a feeling, though it is not for an economist to dogmatize about it, that our contact with the other social sciences will be equally beneficial to them.

Such language may sound strange and heretical to the ears of many economists, but it is intended to produce this effect, as it is my attempt, in what I am saying today, to urge a strengthening of the foundations and a broadening of the scope of economic studies. Whether we will it or not, our work is bound to be impressed into practical service by interested parties. If we are unwilling or unconcerned parties, the chances are that we may subserve wrong ends. If on the other hand we openly include socio-economic problems in our study, we can at least guard ourselves against interested or misguided exploitation. Such expansion need not make us worse theorists; my conviction is that intimate contact with practical realities will make better,³² if perhaps less imposing, theorists of us all. There is a certain traditional bias in favour of the view that only precise, impersonal and abstract statements befit the economist. Any admixture either of social feeling or of non-economic caution is likely to be denounced as unscientific. In spite of such a danger I make bold to say that economics ought to assume a more willing and more constructive role in the shaping of social policy and that it will not be able to do this satisfactorily unless it broadens its vision so as to take in all the significant aspects, even including apparently non-economic aspects, if they are really significant. Whenever an eminent economist has thus girded himself for once to face reality, he and his followers have been the better for it. Smith, Marshall, even Keynes in his later-day writings, are examples of the successful use of this wider orientation in economics. It is the lead of such masters and not of the much advertised pure school that we will do well to follow.

Few things have been left in their pristine purity by the two World Wars and the inter-war depression. The economists are no exception. By the thousand they are being impressed into the service of the state and of corporate and individual employers. Whether these experts cease to be economists on appointment or they cure themselves of earlier convictions — the economist's work is done without reference to ends; it has neither ethical, political nor any other bias; that it cannot include advice in its scope; that prophecy is not possible in economics — it is difficult to say. The former alternative will not conform either to the self-esteem of the appointees or the declared intentions of the appointing authorities. More probably then it is the latter alternative that conforms to reality. In so far as this is the truth, and the experts concerned do not after appointment cease to be students of economics, I have every confidence that their experience will be thrown on the side of just such a broadening of the scope of economics as I have urged today.

31. "From collaboration of this sort (of the economists with other social scientists) we might hope to obtain some new postulates for economic theory. These postulates would take the form of an affirmation that in a particular society men are driven, by social pressure, to conform to certain practices other than to seek the maximization of money gains, for instance, a preference for dealing with small independent shop-keepers, a preference for additional leisure rather than additional income, the hereditary transmission of occupations irrespective of the state of the labour market, a refusal to deal with members of certain racial or other groups within the society."— E. R. Walker (*Ibid.*), p. 86.

32. Prof. V. G. Kale — Presidential Address, Indian Economic Conference, 1928.

Recently an economist³³ who deliberately divested himself of his role as an economist, while pronouncing judgment on what at least in part must be considered an economic problem, has found himself distinguished by being made the spearhead of an electioneering attack by the leader of the British Conservative Party. Whether socialism, planning and collectivism are economically preferable to their more familiar counterparts and whether, combining economic with all other aspects, a social scientist would or would not advocate them, are matters about which controversy is possible. If an economist takes the trouble to argue the whole complex of questions as his legitimate field, what he says has significant value. But if he figures as a scientist in his theoretical writing and as a disillusioned politician in his practical outpourings, the fact that he is a noted economist can hardly save him from sharing the fate of the proverbial cat's paw.

If collectivist direction and central planning, which are indicated by irresistible economic and technological forces, are found to have certain political or social blemishes, we as economists can do one of two things: either leave these ailments to be cured by the appropriate experts or, as we are more directly concerned with these problems, cooperate with the other experts in finding out remedial treatments. Almost every criticism that has been levelled against collectivism³⁴ and planning on the score that these inevitably lead to undemocratic forms of social existence suffers from such incomplete integration of essential thought. Not content with impressing political prejudice into service against planning some economists have delivered themselves of an imposing moral judgment to the effect that the recent preference for planning reveals a blunted³⁵ moral sense. The number of economists who have tried to prove the unworkability and indeed the irrationality of socialistic society is legion. In spite of such biased criticisms collectivism is on the march. Judging from past experience of revolutionary changes in human societies it is only to be expected that the principles of collectivism and planning will ultimately be found to have several degrees and forms of manifestation according to local environment. It would be as true to say today that collectivism is necessarily undemocratic as it would have been to say, on the occasion of the French Revolution, that democracy would necessarily be republican and atheistic. Here is a concrete case of the economists being in danger of repeating their performance. Only this time they will have less excuse for such intellectual sluggishness. They have in a willing and understanding study of socialism not only an opportunity of keeping themselves abreast of social change but also of helping in the mitigation or removal of those evils which they are wont to associate with it.

As mine is a general plea for giving social, institutional and environmental factors an adequate importance in the formulation of economic generalizations I have not thought it necessary to refer to the work of the economists in India by particular mention. In view, however, of two criticisms occasionally made against the large body of Indian economists, I would take this opportunity to offer my own reactions to the same. The complaint that the work of Indian economists, especially in the field of economic theory, is not characterized by sufficient originality and academic worth has often been made, and the criticism has not infrequently been offered by the economists themselves.

33. F.A. Hayek — *The Road to Serfdom*, p. 159.

34. "A collectivist society can exist only under an absolute state." W. Lippmann. *The Good Society*.

35. F.A. Hayek — *The Road to Serfdom*.

I have given some thought to this criticism in the light of the origin and development of economic thought in this as well as other countries. Excepting the refinements of the mathematical school, which may be good mathematics but is in my opinion doubtful economics, the characteristic contributions of great economists have mostly been a response to the constructive challenge of their environment. Smith, Malthus, Ricardo, Mill, List, Carey, Marshall, Keynes — to mention only a few among those whose names are house-hold words among economists — all wrote for their own time and place, and, what is likely to be forgotten, all of them were encouraged by a feeling that the authority charged with the responsibility of solving urgent social problems was likely to be influenced by their writings. I do not suggest that such a purpose was always consciously entertained or that the master-pieces of these renowned authors were little more than overgrown pamphlets. Those of us, however, who have studied the environmental influences on the progress of thought will not, I hope, condemn me of stretching a point too far. Much in our environment even to this day puts us up to the task of destructive criticism of social policies based on theories which cannot be readily applied to our conditions³⁶. I have reason to say that even today the powers that be, even though they might employ a few economists, are still unwilling to receive guidance from Indian economists³⁷. I am convinced that there will never be a living economics in this country so long as there is not a living social power, i.e. an authority which is organically connected with the social environment of which the economist himself is a part. This circumstance also explains, though it might not always justify, a good amount of political bias in some of the writings on professedly economic subjects published in this country.

Under the best of dispensations, however, it must be admitted, it will take some time for an Indian school of economic thought comparable to the English, the American, the German, the Swedish and now the Russian, to be established in this country. Economics, though its importance was first announced by Ranade³⁸ over fifty years ago, is a comparatively recent addition to the special subjects recognized in our universities. Considering the complexity of our problems and their marked contrast to conditions on which much of prevailing economic theory is based the number of what may be called professional full-time students of economics is woefully small. In keeping with the growing importance of the economic aspects of our national and international life the number

36. "These assumptions lie at the root of all dogmatical treatment of the subject. It need not be said that they are literally true of no existing community. To the extent that they are approximately true of any state of society, the assumptions furnish valid explanations of its economical statics. Even then they furnish no suggestion as to its dynamical progress or development. As these assumptions do not absolutely hold good of even the most advanced societies, it is obvious that in societies like ours, they are chiefly conspicuous by their absence." Ranade — *Indian Political Economy*.

37. How little the Government cares for the considered opinions of Indian economists on vital problems of national economic policy was illustrated on the occasion of a Joint Statement of twenty Indian Economists who, in April, 1943, criticized, on a purely expert plane, the views of the Finance Member as to the existence of inflationary finance, and suggested methods of controlling the same. This statement duly despatched to the Finance Member, among other authorities concerned with War Finance and currency, failed to evoke even a formal acknowledgment from the custodian of the national purse and the arbiter of financial policy. It is only fair to add, however, that this lapse did not prevent the Finance Member from using most of the arguments contained in the statement in his next budget speech.

38. Ranade, M. G. — *Indian Political Economy*, 1892.

and staffing of economic departments must be multiplied several times over to justify our expectations of an adequate study of all our problems and of the emergence of a generalized system based on our national peculiarities. A mere multiplication of pedagogic establishments will, however, not suffice. The quantity and variety of teaching work expected from a member of the economics staff are certainly no less here than in most countries outside Great Britain. In addition few of the teachers of economics are free from important administrative duties.

For these reasons, as also for the greater specialization of academic effort, it is of the utmost importance that research institutions³⁹ providing adequate facilities for independent investigation should be started as part of a deliberate plan. Neither the educational nor the economic planner⁴⁰ in India, I am sorry to say, has considered it worth his while to include such institutions in the normal intellectual, scientific and cultural set-up of the country. The importance of verificatory work to which I have alluded in the earlier part of my speech is specially marked in our country, where the danger of impatient application of readymade foreign theories is very real. The work already turned out by a large number amongst us in the sphere of economic history and of economic problems is of no mean order, and will compare favourably with similar work done elsewhere. Even in the sphere of economic theory, results of investigations carried on by institutions like the Punjab Board of Economic Inquiry and the Gokhale⁴¹ Institute of Politics and Economics in Poona have crucial significance regarding the validity of accepted economic theory. The subject of agricultural costs handled by both, and that of industrial earnings to which Prof. Gadgil⁴² has given so much thought, are really starting points of a fresh formulation of theory. Given the social environment, the academic aids and the necessary time, I have not the slightest doubt that we shall be sharing to the full with our fellow-economists in other countries, the responsibility of searching wide and searching unerringly for economic truth wherever we may find it. Let it not be forgotten that even economic study is now an industry and a highly capitalized one.

39. "Too exclusive a concentration on physical and chemical research tends to obscure the progress of economic science, both individual and team, which is of no less importance to the well-being of the community." Sir Richard Gregory, Presidential Address to the British Association, 1945.

40. What I have in view, in this context, is not the establishment of a Central Research Bureau but a network of regional and specialized research institutions which alone can supply essential data and verificatory analysis to the central institutions of research and planning.

41. "Like all the theoretical formulations of the classical economists the doctrine of rent while apparently simple and convincing is really based on a number of complex assumptions. That these assumptions are never actually realized is being felt more and more as a result of closer analysis of particular problems. These basic assumptions are usually grouped together under the two heads: "Perfect Competition" and "Full Employment". I believe it may safely be said that in the matter of agricultural rents in India both of these assumptions take us very far from the realities of the situation. A Note on Agricultural Rent — D.R. Gadgil. *Proceedings of the Third Conference of the Indian Society of Agricultural Economics*, p. 47.

42. D. R. Gadgil — *Regulations of Wages and Other Problems of Industrial Labour in India, 1943.*

Banking and Rural Economy

IT IS nearly five years now since I exhorted leaders of modernized business to turn their attention to all types of rural enterprises. I was then speaking at the annual function of the Maharashtra Chamber of Commerce. My exhortation was, therefore, couched in somewhat general terms. But I had clearly indicated that what I had in view was the entire field of the newly emerging and modernized economy of rural areas. Agriculture, industry, trade, finance have all their proper role to play in promoting and guiding the agrarian revolution which is a vital part of our national development. When, therefore, a year later, the Agricultural Refinance Corporation was set up to strengthen the long-term resources of banking institutions for financing major schemes of agricultural development, along with cooperative banks, an integral place was provided for the commercial banks as well.

The Reserve Bank is charged by the law of its constitution to ensure the soundness of the currency and credit of the country. The guidance and leadership which it offers to the banking system from time to time is in pursuance of this obligation. In the present context of the economic needs of the country, it has, therefore, to insist on three things. Soundness in terms of the security of deposit resources is an elementary need, and no banking institution, private, public or cooperative, which fails to satisfy this test of soundness will have a right to survive and carry on its business. But this is only the beginning and a means to an end. In an economy which is passing through a period of transition towards higher technological standards, the performance of banking institutions has to be judged by reference to their willing and successful participation in this process of economic growth.

LEGITIMATE FUNCTION

While each banking institution is free to pursue its own path of mobilizing and utilizing the savings of the people, its purpose of existence, namely, promoting economic growth, must be fulfilled in keeping with the principles of sound banking. Where, as in India, the process of economic change is integrated in a national plan, the collaboration of banks in financing the various components of the nation's developmental effort is a

legitimate professional activity. The Reserve Bank as the leader and guide of the banking system has to ensure that all banks satisfy the elementary tests not only of a sound balance sheet, but also of pursuing progressive standards of business, and of participating in the developmental policies and programmes incorporated in the national plan.

Now that the commercial banks have, by and large, woken up to their opportunities and obligations in regard to the business provided by agriculture and other rural occupations, not much useful purpose would be served by entering into a retrospective analysis. But a few obvious trends in the traditional policy of banks must be mentioned, as they have a bearing on the future course of their operation. The traditional approach of the major banks of the country towards the function of their mofussil branches, both in rural and semi-urban areas, was that of sources for the collection of deposits. The main centres where the deposit resources so collected are sought to be used are the cities. That some of these city borrowers are engaged in industrial and trading activities which have a bearing on the agricultural or rural life of the community does not speak for a deliberate interest of the banks in pursuing rural projects or in promoting rural enterprise.

BANKS' SLOWNESS

The slowness of commercial banks to appreciate the opportunities and the challenge awaiting them in the rural sector of the economy is not a characteristic only of the private banks. Private or public, the personnel concerned with their operations at all levels has been so long familiar with the business offering at the urban centres that it was a deliberate effort of imagination and sympathy to turn to rurally based enterprises. Moreover, in the past few years, all the resources which banks could muster could be so profitably utilized in industrial, commercial, and, occasionally purely, financial channels, that there was no direct incentive to travel beyond the familiar and the obvious. So much good business was offering at the doors of their principal offices that there was little need even for enterprising bank executives to travel to mofussil places except for collecting deposits. A major technological and economic transformation has been going on in our rural areas which has hitherto failed to evoke a sufficiently prompt and adequate interest in banking institutions.

There are some avoidable misunderstandings even about the popular description of an important section of our banking institutions as commercial banks. Banks are commercial only in the sense that they undertake their respective functions as business, as commerce. In some other countries, such as Australia, such banks are called trading banks. The nature of the business of banks so styled is not confined to commerce or trade in the narrow sense of the term. Lending at a remunerative rate of interest is a bank's business. Bankers, as distinguished from money-lenders, are part of the community of businessmen. As such, their loans are made in the course of business. The nature of the borrower's business does not set any intrinsic limit on the operations of a bank. It is obvious, however, that taking its own business as a whole, a bank will try to make its business as remunerative as possible.

In a modern integrated and equalitarian society, the nature of each recognised business has to conform to accepted legal and social norms. Ideas of remuneration are also regulated within broad limits of equity, and even normal business done for abnormal consideration is treated as anti-social. Both for social and for more narrowly financial or economic considerations, incomes arising from banking service are often regulated in

many of the advanced countries either by themselves, or in relation to other earnings. Both in purpose and in manner, therefore, banking has to keep pace with the general advance of the community. Partly with a view to promoting and strengthening its own business, and partly to make its characteristic skill available to the community, a bank has to be not only a supplier of funds for a price, but also a financial adviser. In regard to new developments, as well as to the established operations of a client, a banker has a legitimate role to play, as an adviser and a collaborator.

The profession of a banker is highly respected by businessmen as well as by the general public on account of the bankers' constructive and responsible contribution towards maintaining the stability and promoting the prosperity of the community. The bankers, as is well-known, do not deal primarily in their own resource. As against a total volume of deposits of approximately Rs. 3,500 crores, the share capital of our banks is only about Rs. 100 crores. Thus, the essence of the banking business is not the lending of a bank's own money, but consists in persuading people to save and to place their savings with banks which undertake to act as skilled intermediaries in final dealings with businessmen who have productive or profitable use for funds. The success of banking business is measured not in terms of the dividend which the banks pay on their share capital, but by the rate of growth in their deposits and by the variety and volume of their advances.

CORRECTION NEEDED

When a banker approaches a farmer, or any other rural operator, he is not expected to depart from his own professional role. Even in the course of his hitherto familiar business, a banker chooses a place which, either as a source of employment or as a centre of funds — or as both — is a promising area. Not all bankers have the same extent of skill or enterprise in these respects, but the more successful have both these, in good measure. As a part of the major economic transformation which has been taking place in India during the past 20 years, many rural areas have developed into active and prosperous centres of farming and allied business. In the absence of a sufficiently enterprising and skilful banking service, the pace and extent of rural progress are much more limited than they should be. This is a bad augury for bankers as well as for the rural community. In fact, the stunted growth of both banking and general business activity is undesirable for the country as a whole. Even from the limited special interest of the Reserve Bank in monetary management and credit control, the situation needs an early correction.

In all rural and semi-urban areas, it is desirable that the banking, saving and investment habits should spread to as large an extent as possible. The commercial banks may choose according to their interest and capacity suitable areas of their operation. With the establishment of agricultural extension, community development and a positive public policy on agricultural prices in almost all parts of rural India, a progressive and business-like, in any case more market-minded, body of farmers is making its appearance. Areas which have been chosen for more intensive development naturally figure as the more progressive and more prosperous. Both to promote banking habit by way of cash deposits and check payments, and to make prudent and productive use of credit, quite a large number of farmers in these areas would appear to be a highly promising field for capable bankers to cultivate, much to their own and to the farmers' benefit.

It is common to pick out certain features of the rural economy as raising doubts about the advisability of banks taking on an expanding role in its functioning. A prominent source of uncertainty has by now been substantially removed. Cultivators' prices for almost all agricultural produce tended to be generally low, and fluctuating. A very reassuring improvement has taken place in this respect. This is due at least as much to a better recognition of the legitimate role of a price policy for agriculture on the part of planning authorities as to the growing political influence of rural interests on Governments. Seasonal variations are largely unavoidable, especially in non-irrigated areas. But given a sound production policy and a legitimate price expectation there is no reason why the farmer, in any case the more substantial and progressive farmer, and his banker should not be able to work out a long-term favourable balance. This should be specially easy for banks having widespread interests in the country as a whole. Except in very rare years of country-wide failure of rains for a series of years, an inter-regional balance of favourable economic activity can be ensured by competent financial management.

RURAL BUSINESS

In entering rural business as a part of their normal functioning, banks will have to take a long-term and comprehensive view. Neither for each branch, nor for all concerned branches together, would a profitable balance of costs and yield of funds be immediately expected. There is reason to believe for the banking system as a whole that in a full-fledged State a developing rural sector will save and send out funds for the non-rural sector. In the initial stages, and in individual cases, the flow will have to be in the other direction. This is the stage at which foresight and enterprise are called for, but this should not be beyond the normal business forecast and perspective planning of well-run banks.

In the areas chosen by each bank as suitable for the intensive development of rural banking business, a drive for deposits by advertisement, personal contact and incentive programmes must be undertaken. For rural operators generally, and especially for those in whom banks are likely to be interested, a flow of cash is now a much more noticeable and regular experience than in the past. Both availability of funds and need for their safe custody with ready access are more evident. This should be good ground for some aggressive and competitive search for deposits on the part of banks. Sale of several agricultural and other inputs on credit in rural areas will also create occasions for bill collection. As is well-known, quite a large-size programme for fertilizer and pesticide distribution is being undertaken, and it is for banks through their normal producer and distributor clients to determine what part of the share of this business they will handle at the rural end. Once a line of contact and appropriate procedures to follow it up have been laid down, it should not be difficult for banks to raise expanding local resources in rural areas.

In regard to advances, it would be natural for banks, in the first instance, to pursue to the full the lines of business with which they are already familiar. In addition to financing the supply business in agricultural inputs right up to the point of use, there is the whole marketing of agricultural produce which may be tackled at levels much nearer to the producer than is done at present. Any major extension in this direction will depend on provision of storage facilities. The Central and State Warehousing Corpora-

tions are expanding their facilities. This should help banks in making advances on the security of produce pending sale.

Many of the agro-industrial units are closely connected with agriculture either at the supply end or at the sale end. A cattle-feed factory and a milk dairy are examples. Similar other cases can be easily thought of. A more enterprising approach to meeting the current and term needs of such units will be rendered possible if the banks have an expanding and continuous presence in the rural scene. With hire-purchase schemes of various sorts, and growing propensity in the farmer for investment in heavy mechanical inputs, some guarantee business should also be possible.

NEW EXPERIENCE

Direct loans made to farmers to help them in transforming the pattern of their farming into one of higher technological content would largely be a new experience for banks, though it would not be difficult to trace familiar prototypes from their other business. The size and the duration of such loans will no doubt depend on the purpose for which a loan is made. It is not improbable that the type of farmer in whom a bank is likely to take interest would more often need a term loan for such things as a tubewell or a tractor than for cultivation expenses. When a whole pattern of cropping and cultivation is undergoing a change either because a new factor such as irrigation or the adoption of superior strains has come into vogue, considerable working advances will also be needed. A scrutiny of purpose and a follow-up of use are very significant in such cases. But in all bonafide cases, such advance made either on a bill or as cash credit would be appropriate.

A banker is not to be easily separated from the security of his loan. In dealing with farmer clients, as distinguished from processing or marketing units which banks can deal with according to established practice, it would be desirable to recognize two things at the very outset. Whereas there is nothing wrong in appropriate cases to have a farmer's land included in any collateral which he offers, the prospect of land actually supplying a part of recovery is almost nil. As a rule, bankers do not rely on the judicial process for recovery. It is more to ensure responsible conduct on the part of the borrower than as a direct aid to recovery that title to freezing and frozen security is obtained.

Most of the loans, and especially loans made directly to the farmers, are essentially personal loans. Banks are increasingly appreciating this in all their business. Growing personalization can be a disadvantage if the outdated mode of equating repaying capacity with saleable security is followed. If, however, the now familiar calculus of progressive bankers in all countries, which measures repaying capacity in terms of the productive competence of the borrower and of the business merits of his project, is adopted, there should be no more difficulty in agricultural than in industrial or commercial business of banks.

MANAGEMENT

For a promotional, discriminating and active role in lending financial support to rural enterprises, the banks will have to reorient and equip themselves in several new ways. For several reasons of convenience, of both banks and their clients, a locational pattern based on *mandi* or bazar places may prove most appropriate. For making and pursuing contacts at the critical points of sale and purchase, *mandi* centres would be very

useful. Some of these places may have other attractions as well. The secular urge in rural development is towards a steady augmentation, accessibility and modernization. A little foresight and enterprise ought to enable banks to pursue a programme of progressive expansion. The whole nature of rural banking business at this stage, and one seeking to operate from key centres such as *mardi* towns, requires that bankers must go out to seek prospective clients and help them in an appropriate manner. A *mandi* office is no more, and no less, than an operating base.

To be able to do the pioneering organizational and developmental work involved in this farsighted and creative venture, the staff maintained at headquarters and in the branches must be adequate in number as well as in competence. Banks have not been sufficiently alert in the past to have on their staff persons who would be able to assess clients' representation of technical and economic issues as competently as is essential for the purpose of undertaking a banking policy based on personal merits and on prospective growth. But by now things have started moving in some respects in at least the more progressive sectors of our banks. So far as agriculture is concerned, matters like agronomy, crop patterns, extension programmes, farm management, and price trends in the rural economy are of the essence of successful banking. It is not suggested that banks should maintain an independent staff of specialists in all these branches. But they must have at least at headquarters persons who would know how to use the available intelligence and expertise supplied by official and non-official sources.

In the branches in particular, I am convinced that banks will not be able to produce the necessary impact on rural business by economizing on the number and status of staff. At least three well-marked important functions would need full-time attention. Besides attending to the actual business of the branch, which at least in the initial stages is likely to present several unfamiliar and complicated features, it is necessary to have scrutiny and follow-up involving field duties, on the one hand, and the promotional and managerial duties, on the other, looked after by well-trained and qualified officers. At this level, the staff will have to be well-informed on special features of both the persons and the economic activities with which they have to deal. It may be a good idea in future to include agricultural graduates by special mention in the list of eligible candidates recruited by banks. In a small way, a few banks are doing this at present, but there is need to do this in a more normal manner as is now done with graduates in economics and commerce.

Bank staff dealing with rural business will learn much by practical experience. The area and clientele covered by each branch have special features of their own. Procedures must be devised by which all relevant facts and experiences are recorded well in time. The reports of branch officials on a variety of matters should be of interest to headquarters officials in deciding their policy. They will also be of use to the training sections of banks for the purpose of their briefing and orientation programmes for staff. The special crops of each area and the seasonal pattern of their cultivation and sale give data on which advances and accounts of clients will have to be judged. We can never anticipate the almost unending variety of individual features and their combinations. But, banks staff at all levels must develop, by training and by experience, at least as much sensitivity to rural personalities and factors as well-trained staff operating in urban areas now develop for other types of bank business.

COOPERATIVES

A more purposeful advent of commercial banks into rural areas is bound to bring them into closer relationship with cooperative institutions. It will be helpful to both to have a fair understanding of the respective approach of each to what essentially is one and the same type of function. I had been for some time Chairman of the biggest cooperative bank in the country, the then Bombay State Cooperative Bank, and more recently, I was Vice-Chairman of the largest commercial bank, the State Bank of India. In whatever I have to say about the mutual relations of the two, I shall not be accused, I hope, of prejudice against either.

While the nature of service rendered by both sets of banks is the same — in fact it cannot be otherwise if they are banks — the area and the people covered by them and the manner of their operation are essentially different. Whereas a commercial bank operates on the principle of individual merit and responsibility of a client, a cooperative bank, like all other cooperative institutions, is a collective service offered for a collective need. This intrinsic position is not affected by the observance or non-observance of unlimited collective liability. That is only a prescribed limit of legal liability. In a cooperative bank all users of banking service are members of the society. They are both lenders and borrowers. In their capacity as members they participate in decision-making without reference to the resource that they bring to the bank, or the service that they obtain from it.

In the assessment of credit in a cooperative bank, the need factor is judged for the individual as a part of a group. For instance, a mechanism like the village workers' conference, at which members of a cooperative credit society meet officers of the central cooperative bank, in the presence of agricultural and extension officers, to decide what size and what type of credit is justified per acre of holding for a particular crop would be unthinkable to decide credit limits of clients of commercial banks. Cooperative business is not only a functional activity, it is even more of a mutual group activity.

That is why several individuals who either have more self-assurance or more self-will than the average, prefer to keep out of a cooperative where they have to regulate their pace by that of the company. There is no law and no principle which says that a person of large resource or enterprise should keep away from a cooperative. It just happens that the specific need of such a person, materially and organizationally, is not met by a cooperative association. So long as an alternative which gives more consideration to individuality is available, such person will choose a commercial bank which ought to be able to welcome him without embarrassment.

SPECIAL RELEVANCE

The socio-economic significance of enabling persons of small means to join together to maximize the output of their productive endeavour has special relevance in a democracy which has adopted planning as a method of expediting its economic growth. A well-conducted and progressive cooperative association does good not only to its own members but also to the community. In its special field of monetary management and credit control, these group activities of comparatively small men also help the implementation of the policies of the Reserve Bank. For democratic life, prevalence of despair and lassitude among the larger base of the social pyramid would spell disaster. The

special encouragement offered to cooperatives is justified not so much by the claims of individuals who constitute a cooperative, but by the benefit which the community hopes to receive by the satisfactory functioning of cooperative bodies. To ensure that special support granted to cooperatives is followed by actual realization of intended social results, a special structure of regulatory measures is set up by State Governments, and, to some extent, by the Reserve Bank.

Whereas cooperative banks are now subject to all the essential controls which all banks have to suffer, as cooperative societies they are subject to a large measure of legislative and administrative control of State Governments. The commercial banks, constituted as they are as joint-stock associations, will neither care for the type of service which the members of a cooperative give to one another, nor care to bring on themselves the restraints of the cooperative law. As there are some individuals who do not easily fit in with the cooperative structure, there are banks, the commercial banks, which do not fit in with the cooperative concept and the cooperative structure. The field of rural business is broad enough, however, for a number of individuals and for a number of commercial banks to do good business with each other. It is this which commercial banks have been a little tardy to recognise.

What the commercial banks will find unacceptable from a small individual operator, they will find to be good business when it is presented in bulk by an organized unit like a cooperative association. The principles of mutual service pervades all cooperative business. It is, therefore, natural that the cooperative structure or sector of business operates as an integrated body. Unless they share to the full both the resources and the needs of all members and of all member institutions, they will lose the main source of their strength and self-reliance. The cooperative structure at several levels, and for several purposes will need to use the functional assistance of other than cooperative organizations, such as governmental and joint-stock bodies. But, knowing the elements of strength as well as of weakness of the cooperative way, these commercial and governmental services ought scrupulously to avoid breaking through the integrity or the discipline of the cooperative structure.

A commercial bank operating in rural areas will find it profitable to extend credit in suitable forms to marketing societies, to land development banks and industrial cooperatives. All these and similar other societies will be involved in a variety of ways with the structure of cooperative finance, and especially with the cooperative banks covered by the Banking Regulation Act. Commercial banks would do well in their own interests, and in the interests of the orderly functioning of the national structure of credit, to deal with cooperative clients, as a rule, in perfect understanding with the appropriate cooperative bank, which most often will be the apex cooperative bank. In fact, it would be advisable, in the light of the experience of the past and of the expectations of the future, for representatives of cooperative and commercial banking systems to meet together to evolve generally accepted norms and procedures of mutual dealing. I dare say, the good offices of the Reserve Bank will prove very helpful in this context.

NEW ORDER

The test of a progressive and satisfactory system of credit is to make financially possible whatever is economically feasible. The credit system as a whole — governmental, commercial and cooperative — must be so knit together that it does not suffer

from either a gap or an overlap. Much collaborative and constructive thinking along these lines is urgently called for. It is to make this kind of unbiased and overall thinking possible that steps are now being taken to place the management of banking institutions in professional hands. In the traditional economy direction of affairs, even of technical affairs, such as management of credit, was placed in the hands of those who were themselves largely interested in its use, not even in the hands of those who provided the means of credit — either as lenders of last resort or as depositors. Once this pattern is altered so as to make trained specialist personnel responsible for managing all parts of the credit structure in conformity with the requirements of the national plan, new talent and new devices will come forth in due course.

National Income : The Next Step in India

IMPORTANCE OF NATIONAL INCOME

THE estimation of the size and movements of national income has always occupied an important place in economic literature. As an index of the healthy and progressive working of individual and collective endeavours aimed at promoting material welfare the figure of national income has particular significance. Its influence on the national income is often adduced as a justification not only for the economic, but also for many administrative and hygienic reforms. Since the advent of the era of avowed interventionism and planning the periodic estimation of national income has assumed a two-fold significance. Several of the economic, political and fiscal measures of a State depend upon the capacity of a community to bear their immediate and ultimate costs. The figure for national income gives a rough idea as to how far the resources of a state might be strained. Equally well the success¹ or failure of individual items of economic policy is most usually measured with reference to their influence on national income. As the augmentation of the community's possession of the means of material well-being is the principal object of national economic policy, the estimation of the size and variation of the figure for national income might then justly be called a crucial study.

INDIA'S NATIONAL INCOME

The poverty of India at the present day is at least as proverbial as its alleged prosperity in the hoary past. That a desire to give the measure of this poverty in quantitative terms should have possessed the minds of many inquirers was only natural. The desire was further fanned by political and administrative claims and counter-claims. The influence of British rule on India's 'wealth' has always been a hotly debated issue, and many of the efforts, official as well as non-official, at estimating Indian national income, have not escaped the effects of this controversy. More narrowly, the efficacy of such state policies as the land revenue and tariff systems in promoting the welfare of

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1. *The Economist*, April 10, 1937, National Income British and American. "It (National Income) is not merely the starting point of economic policy, but also the criterion of the policy's success or failure, for the aim of all economic management should be to increase the aggregate incomes of the community's members."

the people could hardly be judged except with reference to the measure of national income. The need that has recently arisen to expand the basis and to enhance the yield of Indian taxes has also brought to the forefront the question of assessing the country's total wealth and annual income, on which the taxable capacity of the people must ultimately depend.

ATTEMPTS AT ITS MEASUREMENT

The interest aroused by attempts at measuring national income in India is thus essentially of the same kind as that observed in other countries. To assess the efficacy of existing social and economic policy, and to supply material for future modifications in these respects, have been the principal motives of these attempts in India, as everywhere else. It is nearly sixty years since the first attempt of this kind was made by the late Dadabhai Naoroji, since whose days at least a dozen prominent authors have set their hands to estimating India's national income. In view of this it is at first sight surprising that as late as the last session of the Indian Economic Conference, all the attempts hitherto made to compute India's national income were described, by a competent and sympathetic Indian critic,² as suffering from grave defects of material and method. It is easier to acquiesce in the former part of this judgment than in the latter. Almost to a man, all Indian economists who have put their hands to an estimation of India's national income have done so by what has been authoritatively described as the more fundamental³ method of assessing the produced, rather than the consumed income. It is indeed possible to cavil at the freedom of imagination with which such vital items as the ratio of non-agricultural to agricultural incomes, and of agricultural costs to production were sometimes estimated. It is also true that on such controversial questions as the inclusion of services, taxes and capital movements the practice in India has not in all cases been in conformity with the prevailing school of thought⁴ on the subject elsewhere. But as will be clear in the sequel these are comparatively unimportant blemishes in a work that otherwise has been characterized by great industry and insight.

UNSATISFACTORY DATA

The more far-reaching of the defects of the Indian attempts at estimating national income arise out of the unsatisfactory character of the data used. For these shortcomings the public authorities in India must be held to be mainly responsible. The primary data⁵ used by almost all authors mainly consists of the published statistics of cropped area and estimated yield of the several crops. Whatever defects these two items suffer from are not certainly of the making of Indian economists, who have

2. B.N. Kaul's paper on 'Estimation of the National Income of India,' read and discussed at the 20th (Agra) session of the Indian Economic Conference. — *Indian Journal of Economics* (I.J.E.), April 1937, p. 529.

3. A Scheme for an Economic Census of India by Dr. A. L. Bowley and Mr. D. H. Robertson *B.R.R.*, p. II.

4. Sir Josiah Stamp's paper on 'Methods used in different countries for estimating National Income' read and discussed at the centenary meeting of the Royal Statistical Society, published in the *Journal of the Royal Statistical Society* (J.R.S.S.), Part III, 1934, p. 426. The balance of argument to me is overwhelmingly in favour of a conception of national income which puts full exchange value upon services rendered, however immaterial.'

5. Dr. Kaul's paper referred to *I.J.E.*, April 1937.

always urged a radical reform in the method of their collection. The almost complete lack of representative figures for agricultural costs, rural and urban wages, the produce of small-scale industries and the detailed distribution of population by occupational status—all these are obstacles in the way of any accurate measuring either of the wealth or of the income of the people. Only the State can bring into being the legislative and administrative equipment necessary to gather and coordinate these vital aids to the process of estimating India's national income.

NEW OUTLOOK

The fact is that the importance of maintaining an extensive and reliable system of collecting statistical information bearing on all aspects of public policy has been only lately, and even now incompletely, realized by the government in India. It must also be added that the scientific thought⁶ on the subject of estimating national income has only recently reached an advanced stage though it is by no means unanimous even now. In 1931, for the first time the Government of India invited Sir Arthur Salter, the then Director of the economic and financial section of the secretariat of the League of Nations, to advise them in setting up an economic advisory organization in India. Sir Arthur Salter reviewed the organization and working of economic advisory bodies in other countries, and in the light of special features of India made his own recommendations.⁷ This report remained unattended to by government. The appointment in January 1934 of an expert committee consisting of Dr. Bowley and Mr. Robertson to advise the Government of India regarding the merits of their statistical organization and equipment may be taken to mark at least the faint beginning of a revived interest on the part of government. At any rate the great enthusiasm with which new popular ministries are expected to take measures of public reform will ill serve the ends in view unless the process of modernizing the statistical services is considerably pushed forward without any further delay. The present time appears to be opportune to take stock of the theoretical and practical aspects of this initial problem of devising a technique and gathering material for the purpose of assessing the national income of India.

NATIONAL WEALTH

It has been said sometimes that it is more important to assess the total national wealth⁸ of a community than the aggregate of its annual income. It must be admitted that for deciding several important questions of long-range economic policies an assessment of the wealth of a community has great value. But the annual flow of income is practically far more significant for the nation as for the individual. Moreover, the process of capitalization by which the national wealth will have to be mainly arrived at will essentially be based on an estimate of income. More fundamental theoretically and more significant practically than national wealth is, therefore, the concept of national income. From the latter the former can be easily inferred. The former leaves us in doubt as to the exact measure of the latter.

6. A very good summary of the development of thought on this subject can be gathered from Sir Josiah Stamp's paper and the discussion on the same, referred to above (*J.R.S.S.*), 1934, and from the article on National Income in the *Encyclopaedia of Social Sciences* (*E.S.S.*), Vol. XI, pp. 205-224.

7. A scheme for an Economic Advisory Organization in India. Report by Sir Arthur Salter, 1931

8. Prof. Francois Simiand, *J.R.S.S.*, 1934, pp. 457-8.

DEFINING A NATION

In defining the term 'national income' there are many theoretical difficulties.⁹ As for the concept of the nation the territorial limits of nationality have to be modified in respect of nationals' income earned abroad, and foreigners' income earned in a given country. Thus at bottom it is the ownership or proprietorship of the income that is of more importance than the place of earning. In a country like India where foreign capital and enterprise are employed on a considerable scale, their earnings will constitute an important deduction from national income. On the other hand, for England, the earnings of English nationals in all parts of the overseas world must be counted into the national income. Theoretically, the demographic conception of a nation is more accurate for purposes of estimating national income than the geographic one. But the extent to which the one or the other conception would dominate the problem of assessment will depend on the nature of the economy concerned. For a nation having large foreign relations in respect of capital and enterprise the demographic concept is more relevant. For a relatively self-contained economy the geographical concept may be sufficiently adequate.

INCOME AND SERVICES

Definition of income is theoretically an easy affair. The net production of goods and services during any given period is the meaning most generally attached to income. Thus from gross production of industry, costs incurred by way of replacement, have to be deducted before the figure for income is arrived at. In the term 'production of economic goods' services¹⁰ are necessarily included. There are no grounds of theoretical importance adduced in support of the proposal to exclude services from national income. There may be practical difficulties in estimating the exact nature and value of services. In particular in an economy of customary services, sometimes unpaid and often paid for in kind, and at customary rates, the difficulties of calculation may prove very great. So long as the stage of economic evolution has not gone beyond the satisfaction of primary wants by traditional methods the theoretically sound course of calculating productive services has very little practical significance. In an economy of want¹¹ as contrasted against an economy of surplus, services have a relatively less significant part to play. In India there are sufficient grounds to believe that an attempt to estimate even the exchanged and exchangeable services of the people will prove more pedantic than useful.

9. Refer to the article on National Income in the *Encyclopaedia of Social Sciences* for all aspects of definition of National Income.

10. Refer to Stamp's paper and discussion thereon (*J.R.S.S.* 1934).

11. W.C. Mitchell and S. Kuznets mentioned in Sir Josiah Stamp's article already referred to (*J.R.S.S.*, 1934, p. 425), and the following extract from the article on National Income (*E.S.S.*, p. 210), "Since wealth was originally conceived in material terms, only that labour was considered "productive" which resulted in material goods. This definition excluded from productive activity all services and considered incomes from services not as primary but as derived shares. While this point of view has proved inadequate, the distinction persists as background to much current thought and retains its significance as a contrast which would be valid were our economic system to become again an economy of want rather than one of surplus. In such eventuality commodities as whole, in so far as they form directly the support of life, would be more important than most services."

PRODUCED INCOME

For all practically useful purposes an estimate of the material income of the people is sufficiently significant. Even in respect of material income, however, the estimate might refer to income produced¹², income earned or income consumed. If the objective is to define the extent of the command that individuals actually have on the means of their livelihood, the notions of earned and consumed income have a distinct advantage over the notion of produced income. The difficulties of measuring businessmen's and private individual's savings are, however, so great that the estimate of earned and consumed incomes will always tend to suffer from a much greater element of uncertainty than produced income. If, moreover, the purpose for which national income is being studied is that of measuring the annual return to the community's economic endeavour the notion of produced income has, even theoretically, greater significance than earned or consumed income.

METHODS

Given produced income as our objective the choice of method by which the same can be measured, or at any rate estimated, becomes important. Two methods¹³ are well known. One is called the census or the individual income method. The earnings of individuals are carefully recorded either by a comprehensive census or by a sample occupational inquiry. The total thus gathered is said to represent total national income. The other is the inventory or national production method. All the branches of national production are surveyed with a view to finding out their net annual output. The latter is said to be the equivalent of national income for the year. In the former method the need for calculating costs of production and earnings of services is for the most part estimated. But the lack of adequate and reliable data for the income of all classes and groups of people is a very serious handicap in the path of enumerating individual incomes, except in the most advanced countries such as those of England and the U.S.A. An extensive and elaborate system of direct taxation based on income notions, an intensive occupational survey, a knowledge of representative family budgets, these are very essential for aiding the process of deriving national income from the sum total of individual incomes. This method, however, entails not only excessive expenditure, but the ever present danger that an undefined part of national income, individual and collective, will be left out of account, without any indication as to the proportion that it may bear to the collected statistics.

INVENTORY METHOD

The inventory or national income method is not immune from practical difficulties. In the first place if it is decided to include services in the income produced, their estimation and variation are bound to be a very difficult and uncertain affair. Secondly, the entire field of production is hardly ever available for being recorded, and even if it is, the difficulties of calculating the costs, which must be deducted to arrive at the income figure, are as great as ever. If then the inventory method is preferred by a large

12. Article on National Income in *E.S.S.*, referred to.

13. Refer to Stamp's paper and discussion thereon (*J.R.S.S.*, 1934).

group of writers¹⁴ it is not because they are oblivious of its theoretical and practical drawbacks. They feel, however, that in a sphere, where estimation and computation of incomplete and vague data are inevitable, this method gives at least a nucleus of basic facts which might help to reduce the unavoidable errors.

CHOICE OF METHOD

The conflict of methods in the measurement of national income has been aptly likened to a similar conflict with reference to the appropriateness of cost and utility as determining influence on value. Marshall's¹⁵ analogy of a pair of scissors would appear to indicate the need for toleration and compromise in this field. We must confess to an inability to measure accurately the national income of any people. Even in a communistic country, as in Russia, the apparent accuracy and completeness of production data is vitiated by the vagueness of cost calculations. To get as reliable an estimate of national income as possible is the only objective towards which our studies may tend. The greater the field over which accurate measurement is possible the less are the chances of an erroneous estimate, thanks to the developing resources of the statistical science. The stage of industrial evolution in a country, the peculiarities of its taxation and distributional systems, the nature of statistical and human material available, —these must decide the choice of method suitable for each country. In a relatively backward and stationary economy an estimate of production is liable to err less than an estimate of total individual incomes.

COMPARATIVE SIGNIFICANCE OF FIGURES

It is, however, clear that as far as possible both the methods should serve as a check on one another. Above all, intensive studies of family budgets representing the several income groups must be utilized as corrective to our notions. The difficulties and uncertainties that are inseparable from any method of measuring national income suggest another caution. The quantitative results obtained by following either method are best treated as terms in a comparative series, rather than as accurate measurements. For different periods in one and the same country the quantitative results obtained by following any single method may more unmistakably show the direction and extent of variation rather than the actual position. A greater emphasis on the comparative, rather than absolute, significance of figures of national income is indicated.

BOWLEY-ROBERTSON

An authoritative and systematic measurement of national income in India is yet to come. The official and unofficial attempts made hitherto to estimate per capita income of Indians have been no better than "bold guesses." The problems involved in providing and selecting the statistical material on which any elaborate and reliable calcu-

14. A.W. Flux, *J.R.S.S.*, pp. 461-63.

15. Stamp's reply to discussion on his paper (*J.R.S.S.*, 1934, p. 555), 'Mr. Flux set forth a gallant claim that the census of production was really the fundamental method of measuring the national income, so that all other methods may be 'also ran'. I do not want to embark on that particular discussion, but, using Marshall's analogy for value they may be called the two blades of a pair of scissors, and we should not be able to cut deeply into the subject without them both.'

16. Prof. Francois Simiand in the course of discussion on Stamp's paper, *J.R.S.S.*, pp. 459-59.

lations can be based need an authoritative and competent handling. In view of the methodological controversies referred to above, the choice of a suitable method in India is also a matter for preliminary discussion if resources are not to be frittered away. The invitation sent out by the Government of India to two British experts, one of whom is a well-known authority on the subject of statistics, to survey the existing position with reference to available statistical material was a good beginning. Among the terms¹⁷ of inquiry that were specifically referred to Dr. Bowley and Mr. Robertson were included the following: (i) 'to consider the practicability and scope of a census of production;' (ii) 'to consider the materials obtainable for measurement of national income and national wealth.'

WEALTH AND PRODUCTION IN INDIA

The eminent British advisers examined all the available sources of information and resources of organization in India and they have come to very clear conclusions. They do not consider that any useful purpose will be served by trying to work out any figure for the national wealth of India.¹⁸ In view of the scantiness of the material contrasting with the immensity of the problem, no other conclusion was possible. With respect to a general index of production the decision of the experts is equally emphatic and unfavourable.¹⁹ The character and extent of primary sources on which such an index has to be based are so very unsatisfactory that a general index of production cannot at this stage be undertaken in India. For the smaller industries there is absolutely no authoritative information. For bigger industries the information for wages is lacking. As for agriculture, there is a plethora of pseudo-systematic statistics. But the sources of agricultural statistics are tainted by ignorance and inefficiency. Even here our knowledge about costs of production is at its very early stages of development. Any attempt at preparing an index of production in India must, therefore, concentrate on improving the extent and reliability of primary statistics.

NATIONAL INCOME

These considerations are equally valid in the field of assessing India's national income. If we were asked to prepare an estimate of India's national income out of the sources of information at present available the results cannot be very different from those already published by such writers as Profs. Findlay Shirras²⁰ and K.T. Shah.²¹ By suggesting that a *de novo* inquiry into agricultural and industrial production must be undertaken before an attempt is made to assess India's national income, Profs. Bowley and Robertson are in effect proving the thesis²² that with the available material no better results than those produced by Indian scholars were possible.

SURVEYS

The prevalence of owner-consumption and of customary services paid in kind create special problems of computation in India. No generalized conclusions based on

17. *B.R.R.*, p. III.

18. *B.R.R.*, p. 12.

19. *B.R.R.*, p. 43.

20. Findlay Shirras, *The Science of Public Finance*, pp. 138-139; *Poverty and Kindred Problems*, p. 42.

21. K.T. Shah and K.J. Khambatta, *Wealth and Taxable Capacity of India*, pp. 199-200.

22. *B.R.R.*, p. 9.

the usual statistical information gathered primarily for administrative purposes is justifiable in this field. The experts, therefore, suggested an intensive enquiry into the whole economic life of selected villages,²³ which were to be chosen by the process of random sampling. Though some statistical experts might be tempted to push forward the claims of representative or stratified sampling,²⁴ the method proposed by the British experts appears to be as good as any other, besides being a simple one. With a view to assessing the relative importance of urban occupations in India's national economy the experts have also suggested a sample inquiry into the earnings of urban²⁵ population, of small and big towns. The cooperation of teachers and students of economics is more specifically asked for in this field. It is expected that the results of these rural and urban inquiries combined with the statistics of largescale industries and trade already available²⁶ will go a long way in making the task of estimating India's national income much more realistic and hopeful than it now is.

REPORT SHELVED

The particulars of both these surveys, rural and urban, suggested by Dr. Bowley and Mr. Robertson are well-known. It is always easy in such detailed schemes to pick holes, and many details²⁷ can get adjusted only in the process of being practically worked. But the conclusion that the suggested schemes of the experts represent a very acceptable first step which the responsible authorities should take in the very important task of estimating the net return to the productive endeavours of the Indian people is unchallenged. The experts, presuming that their employers, the Government of India, were serious in their desire to improve the machinery of information and to know for a fact what the economic strength of the nation actually was, had planned a time-table²⁸ for their recommendations being put into effect. Their recommendations were reported to the Government of India in 1934. They expected that the administrative organization would be set up in 1935, that the rural survey would be finished in 1936 and that the year 1937 should not close without the urban surveys and the reporting on the results of both being achieved. The year 1937 is over and yet not even the beginnings of a real attempt to appoint and train the administrative services is visible. In fact there is little reason to doubt that the report of the British experts is by now concealed under the dust that gathers in the unfrequented dovecots of the central secretariat.²⁹

23. *B.R.R.*, pp. 17-23, 70-77.

24. K.B. Madhav and B. N. Kaul, *I.J.E.*, p. 640-643.

25. *B.R.R.*, pp. 24-29.

26. Ref. especially to *Monthly Surveys of Business Conditions in India*, published by Government.

27. Thus the use of figures of total grain production in villages as estimated from information gathered on threshing floors, for purposes of checking figures otherwise arrived at is a detail that might be adjusted in due course. But the replacement of the detailed survey itself by the method of computation at the threshing floor, as is suggested by Dr. P. J. Thomas in his paper read before the Indian Economic Conference (*I.J.E.*, April, 1937, pp. 541-551), is to be deprecated as it would put a very rough tool in place of a serviceable one.

28. *B.R.R.*, p. 14.

29. The economic survey of Poona at present being conducted by the Gokhale Institute of Politics and Economics represents a very significant move in this field, which may in due course serve as a model for several other cities.

UNOFFICIAL ATTEMPTS

While the apathy and indifference of the government are as obvious as ever the need for improving the sources of our economic intelligence grows apace. The awakened social and national consciousness of the Indian people is struggling to express itself in acts of positive economic betterment. Policies cannot be wisely devised and efficiently executed unless the extent and accuracy of our economic information improve. Nor is it possible at this stage to assess the actual results of such policies as are or as will be operative. It is, therefore, of the utmost importance that all concerned should move in the direction of implementing the recommendations of the British experts. The university departments and other research institutions are already doing their level best to improve their own knowledge and the efficacy of their services. The large number of surveys and inquiries into the social and economic conditions of the people which form the substance of the ever-increasing number of published and unpublished theses, of Indian scholars³⁰ bear full testimony to their ardent desire to help forward the cause of discovering economic truth and publishing it for the information of those on whom lies the responsibility of shaping national economic policy.

LEGISLATIVE SANCTION

The organization, improvement and coordination of statistical information is, however, a field in which private efforts are of very limited usefulness, unless powerfully aided by the State. Much of official activity needed in this respect must necessarily come from the national government. Even if for reasons best known to themselves the Government of India are not for the present prepared to undertake comprehensive surveys along lines recommended by the experts of their own choice they can at any rate take steps to increase the utility of their existing machinery. Wherever large-scale industries and organized economic life have come into existence, the passing of legislation enforcing the supply of useful yet non-confidential information about business conditions has been held to be necessary. Such legislation was recommended for India by the experts,³¹ who thought that the business community in India is not opposed to the principle of such legislation. Models for this type of legislation can be easily procured and the Government of India will be consulting the convenience of their own departments and of Indian scholars if they were to initiate without further delay suitable legislation on this subject. Central legislation in this sphere will have, of course, to be supplemented by provincial acts.

CENSUS ORGANIZATION

The all-India census comes once in ten years and its record is a very important plank in the structure of several official and non-official statements. The experience of past censuses in this and other countries has suggested improvements in the form of the decennial censuses which must find their way in the next Indian census, of 1941. Unless timely attempts are made to define and enumerate the needed reforms the next census is from a student's stand-point likely to be as disappointing as its predecessors.

30. The commendable attempt of Dr. V.K.R.V. Rao to assess industrial wages in India has been outlined in the March issue of the *Economic Journal* (1937) and indicates the anxiety of Indian scholars to undertake intensive research in this field.

31. *B.R.R.*, p. 15.

The desirability of setting up a permanent census office³² has been often pressed on the Government, who might with great advantage appoint the necessary staff for the next census at least one year earlier than usual. It is very desirable that a small informal committee on which administrative, academic and industrial talent is represented should be set up so as to decide the form that the next census is to take. The work of the central committee may be supplemented by provincial bodies organized on the same principle. These committees should be kept in being, if necessary, to aid and advise the census staff during the course of the latter's work of collection, collation and editing. The responsibility and control will, of course, vest in the authorities concerned. The advisory bodies are intended only to give timely indications as to the ways in which the results of the census will prove more serviceable to those officials and non-officials who have most often to use them.

OCCUPATIONAL STATISTICS

The direct inquiry into the incomes of people that was undertaken in New Zealand³³ is hardly to be recommended here. The inquiry will elicit some figure, which no doubt will appear to have some plausibility. But the undeveloped and undifferentiated nature of Indian Economy, as also the ignorance and prejudice of most Indians with regard to the ends of official information agencies, makes the adoption of this course unthinkable. The census authorities might, however, elaborate the occupational³⁴ tables, especially for all urban areas. The status in industrial employment—employer, employed or master-worker—ought to be clearly defined. When the occupational statistics are published then classification by urban and rural areas must be given. With this information to guide them students working on sample surveys can hope to put the results of their work to some generalized use.

PRICES, WAGES AND INCOMES

The price statistics at present published from Bombay and Calcutta have been recognized to be most misleading. Their replacement by a better classified and more widespread record of price conditions is an urgent reform which must be adopted irrespective of other pressing demands. Price statistics ought also to be accompanied by wage³⁵ statistics of an occupationally classified nature. The use of one and the same machinery for the collection of both these statistics will result in economy as well as efficiency. The choice of a year in the seventies of the last century as a base is no longer relevant or significant and the substitution of a more suitable basic year is badly called for. The publication in a handy form of the details of income-tax administration is likely to help the economic inquirer. All these reforms fall within the sphere of legislative and administrative action of the central government, and their execution at an early date will undoubtedly help the progress both of government departments and of national economy.

32. *B.R.R.*, p. 44

33. Stamp, *J.R.S.S.*, 1934, p. 428.

34. *B.R.R.*, pp. 4-5.

35. *B.R.R.*, pp. 43-51.

NEW PROVINCIAL GOVERNMENTS

Much of the basic work can, however, be done without any further delay in the provinces, where the entire State organization is now under popular control. The leaders of parties will have to go without informed advice on objects of public policy if they miss their opportunity to supply accurate and complete factual information to interested and competent students. In a democracy nothing is more vital to the political education of the electorate than the widespread diffusion of accurate and complete information. The old attitude of official reserve and secretiveness regarding the supply of important information must now be abandoned. Give the people facts, all facts and nothing but facts, and leave them to frame their own conclusions: this should be the attitude of the government under the new regime.

BOARDS OF ECONOMIC INQUIRY

It is possible for at least some of the provincial governments to initiate inquiries on the lines suggested in the report of Dr. Bowley and Mr. Robertson. A coordinated inquiry in this field would of course have been valuable. But if the Central Government does not move the provincial governments need not remain in discontented inactivity. They can count upon the cooperation of the public as well as of the academic workers in this common task. In provinces like Punjab and Madras where Boards of Economic Inquiry are already in existence further progress ought not to be very difficult. Other provinces may well emulate the example of these provinces and set up Provincial Boards of Economic Inquiry. Under the new constitution it is going to be even more difficult to move the Central Government than in the past. But if provincial governments and educational institutions like the universities and colleges coordinate, there is no reason why the utter lack of adequate and reliable primary data for the assessment of India's national income, national wealth and national production should continue much longer.

PRIMARY STATISTICS VITAL RETURNS

It is in the sphere of improving the primary sources of statistical information that immediate steps must be taken by the provincial governments. Vital statistics about births and deaths, and crop and yield estimates have been the villains of the peace till now. By inculcating a new consciousness of the importance of accurate enumeration among all ranks of the official organization and by improving the machinery of checks, both these important departments of statistical information ought to be improved. An attempt must be made to get more details about the age of parents at the birth of a child and the evil of non-registration must be put down by stringent measures, if it does not yield to propaganda.

AGRICULTURAL STATISTICS

Of all the production and income statistics of India the most important are those relating to the cultivation and yield of land. No amount of money and effort spent on the task of ascertaining within reasonable limits of error the total out-turn of the agricultural industry can be considered to be a waste. The recommendation of Dr. Bowley and Mr. Robertson that the Jute³⁶ recording system of Bengal should be copied by all

36. *B.R.R.*, p. 40.

provinces for all crops, is worthy of immediate adoption in the provinces. Each field should be entered in a special register kept by the village accountant. Area, class of soil, crop, condition of crop, estimated out-turn, and ascertained actual out-turn should be recorded in the register. The standard yield should be revised in all cases and should be periodically checked by the staff of the Agricultural and not of the Revenue Department as at present. The village staff in this respect should be under the control of the Agricultural Department. Not only the greater accuracy of information, but also the justice of the tax system depends upon this reform which is overdue and the cost on which will be more than repaid in the shape of administrative efficiency and social justice.

STATISTICS AND WELFARE

The maintenance of occupational and wage statistics for rural as well as for urban areas is also a matter which provincial administrations of the future ought more carefully to attend to. Each department coming in close contact with the economic life of the people should be instructed to maintain statistics of wage rates, and these should be regularly published. Price statistics which are now maintained in a very unsatisfactory form by the district authorities ought to be improved. The strengthening of the departments concerned by the appointment of statistically trained men is very essential. Many problems of economic and even political policy in India depend upon an accurate knowledge of wealth and income of the people, their distribution and variation. In a real sense of the word 'statistical' is the key service in administrative organization. With growing responsibilities for the protection and welfare of the people the Indian governments, central and provincial, can ill-afford to neglect the recommendations for reorganization and extension made by competent Indian and English experts. If the governments play their part of organizing the collection and dissemination of facts they may confidently count upon trained workers supplying the interpretations. The quintessence of all economic life and policy may be traced in national income. In bestirring themselves to improve the primary statistics the new administrations will not only be facilitating the work of the scholars, but they will be also improving the chances of their own material contribution to popular welfare.

Economics of Rural Development

I AM very grateful to the members of the Indian Society of Agricultural Economics for having invited me to preside over this, the Seventeenth Session of the All-India Agricultural Economics Conference. I have been a professing, perhaps also a professional, student of economic subjects for more than thirty years. Almost all the economic problems of India concern in varying measure the fortunes of the agriculturist and of his occupation. I could not therefore have been unconcerned about the economics of Indian agriculture, even if I wanted to be so. Moreover, I was brought up in the tradition of Ranade and Joshi, for both of whom agriculture was not only an important part of India's economy but it was the very foundation. The continued interest that it has been my privilege to take in the cooperative movement, and latterly in the community development programmes and national extension service has also drawn me into a study of at least some of the economic aspects of agriculture. All the same I cannot really lay claim to being a full-fledged agricultural economist. I was emboldened to accept the responsibility of presidentship of this Conference, because of a wise convention set up by the Association, to alternate its choice of president between agricultural economists and the rest. It is the protection afforded by this double alibi which upholds me in my present position.

If we were to scan the occupational data supplied by the decennial censuses we would find little cause to justify a feeling that the number or proportion of our population dependent on agriculture is being reduced. Whether we take movement of population or the pace and pattern of economic development there is nothing to suggest that a major socio-economic process of rationalization of agriculture, and of modernization of the techniques of industry has yet gathered a strong momentum. The number of persons employed in agricultural pursuits is near two-thirds, and the share of agricultural production in the national output is near one-half. As compared with this preponderance of agriculture in respect of employment and output the share of capital investment in agriculture is meagre, being only about 30 per cent of the total. If the experience of agricultural development made by other countries is any guide, it

Presidential Address delivered at the Seventeenth Conference of the Indian Society of Agricultural Economics, held at Cuttack, December 1956. Source : *The Indian Journal of Agricultural Economics*, Vol. XII, No. 2, April-June 1957, pp. 6-17.

would be obvious that productive investment of capital, per acre of cultivated land and per employed person, will have to be substantially increased if a process of rapid rise in productivity of agriculture by the adoption of such measures as minor irrigation works, soil conservation and employment of improved standards of cultivation is to be promoted. This is an aspect of the programmes of agricultural improvement which has not been worked out with enough care, and hence the provision of funds intended for agriculture in the national plan appears to be meagre, especially if the pattern of progressive cultivation included in the national extension programmes is to be adopted by a majority of farmers.

Under the Second Five-Year Plan it is proposed to bring all the villages of India under the national extension scheme of rural development. Forty per cent of these villages have to be under the more comprehensive plan of community development. The total number of villages in India exceeds, 500,000. Even allowing for a twenty per cent deduction on account of dehabitation, smallness, double counting, etc. it would be fair to presume that not less than 400,000 villages are to be the scene of a programme in which every family is expected to participate in a plan of improved farming which would be devised to suit its conditions. Participation in a developmental programme along these lines would, apart from other things, require long-and medium-term investment very much in excess of the figures of Rs. 25 crores, and of Rs. 50 crores for long-and medium-term credit respectively provided in the Second Five-Year Plan. Most of the funds needed for agricultural development under the scheme of extension must come through institutional channels, as no other agency exists which will provide the funds either on the required scale or on economical terms. Great as is the paucity of current credit, greater still is the shortage of developmental funds. If the programme of agricultural progress envisaged by the plan, which has been recently augmented by a quarter, is to be really implemented, a much larger amount of long-and medium-term investment than is provided in the plan would be needed.

The importance of providing adequate developmental capital to agriculture is obvious. When it is realized that the process of industrial revolution of the entire economy of the nation has to start from the industry of the people, the truly national industry, namely, cultivation of land, it will be seen that starving agriculture is not only bad economy for farming, but it is also an evil turn done to manufacturing and other industries as well. Without the support of abundant and cheap supplies of food and raw materials, there is no prospect of organizing an economical and productive programme of industrial development. Nor would the products of industry sell except in markets created by growing incomes among the non-industrial sections of the community. The desired balance between agriculture and industry will be attained not by alternating emphasis on the two in one plan and the next, but by keeping a continuing harmony between the needs and potentialities of both. The allocation of only 12 per cent of developmental outlay of the Second Five-Year Plan to agriculture and community development as against 16 per cent of the First Five-Year Plan can have no justification at all. In any case it would not be realistic to expect that the enhanced targets of agricultural production in the revised Second Five-Year Plan can be realized with a lower percentage of allocated funds. Increase in productivity, as well as of total production, of agriculture commensurate with the effective demands of the non-agriculturist sector must be treated as a corner-stone of our national economic policy.

Out of agriculture's increased productivity will arise not only the current supply of food and raw materials, and the demand for non-agricultural produce, but eventually also the investible surplus of capital needed to activate later stages of economic progress.

In one sense the importance of modernization and scientific progress of agriculture is even greater than appears in an accountant's stock-taking. The habits of mind which would make for successful and progressive industry are not built in a day nor would their possession by a few people suffice to improve the tone of a whole economy. In fact concentration of enterprise in a few people leads to a corresponding concentration of wealth. The social injustice and economic wastefulness of such a state of things have already been recognized in our national constitution. More important than an equal distribution of consumption goods is the equal distribution of productive opportunities. In an old ruralized economy seeking to make rapid progress on the road to industrial development emphasis must be placed on bringing opportunities of progress to the mass of the people, who are rural and for the most part agricultural. A change in the outlook, habits and occupations of the cultivating classes will contribute to the material as well as moral progress of the community as a whole. The measure of progressiveness, comfort, and civic virtue which a nation claims to possess must be real in terms of the actual experience of the large mass of its people. In India anything which the average cultivator has not an opportunity of experiencing by his own effort can hardly be claimed as a dependable index of the improvement of the nation as a whole.

It was, therefore, in the fitness of things that the First Five-Year Plan gave prominent place to agriculture, irrigation, community projects and similar items in other departments of economic life having a bearing on the progress of the principal industry of the people. In an old, big, populous and monsoonish country like ours a programme of agricultural transformation has to be technically sound as well as massive in its impact, and it has to be continued for a long while. Resources of capital and organization have to be concentrated on the job till the transformation is complete. The achievements of the agricultural part of the First Five-Year Plan were not disappointing, so far as they went. Irrigational works, large and small, made normal progress. Community projects got off to a good start, and above all the rain gods were on the whole propitious. These were encouraging, but by no means completely reassuring, circumstances for the planners. A large part of the programme of minor irrigational works had to face physical and technical difficulties of an almost insurmountable character. Even where the irrigational part made normal progress, schemes of actual utilization, and especially of promoting progressive levels of cultivation could not be easily adopted. Legal, financial and organizational difficulties cropped up on a scale not anticipated in the plan. In the community projects a lot more of initial effort had to be incurred than was allowed for. At their best the projects touched only a portion of villages and of cultivators. The technical and scientific contents of the programme of extension were as a rule too generalized to be of practical benefit to individual farmers. All these and other deficiencies were gradually noticed and plans were made to remove them.

This process of slow initial impact, and of trial and error, was unavoidable. Lulled into complacency by the favourable results of two or three monsoons, the planners tended to overlook the sobering implications of the slow and halting progress of their

agricultural programme. For long-term achievements in raising productivity on a mass scale there was need to invest much further effort and resource than were provided in the programme. The technical implications of irrigational works had of course to be studied. But of even greater economic import were the limits on actual utilization of land and water. Systems of land tenure, programmes of appropriate crop planning and provision of institutional finance and technical assistance could not be suitably rearranged in time to make the best use of irrigational facilities. Even now not much advance has been made, and it is of the utmost importance for the success of the plan as a whole, and of its agricultural portion in particular, that more resources should be channelled into these items. Any feeling of complacency, such as that which is implied in a rapid increase in the formal setting up of agricultural extension organization without adequate technical and financial strengthening, or that in setting up targets of agricultural production without corresponding programmes of agricultural extension and institutional finance, will be fatal to the success of the plan. Recent happenings on the food front are not to be treated as passing events. They only show that the weaknesses of our existing agricultural structure are very deep seated. Unless large scale and sustained efforts are made to remove these defects the foundations of a major plan of economic transformation cannot be said to have been laid.

Nor is the importance of agricultural planning to be judged in terms of physical production alone. The republican constitution of India lists certain social values as paramount in the structure of relations to be sustained by the authority of the State. Among these values avoidance of concentration of economic power, and equalization of possessions and of opportunities have been given a very high place. It is not open to any loyal citizen of the State, and least of all to an organized governmental authority, to order its plans otherwise than in keeping with this scale of values. Where eighty per cent of the people live in rural areas, and over two-thirds live by agriculture, the regime of equalitarian and progressive social arrangements must be established firmly in rural pursuits generally, and in agriculture in particular. The programmes of rural reconstruction outlined in the First Five-Year Plan were largely based on a recognition of the system of values contained in the Constitution. In the implementation of those programmes the same zeal for maintenance of the prescribed values has not been uniformly sustained.

Thus the land reform measures which are basic to the whole structure of agricultural planning have not been pursued with the necessary vigour in all parts. If our national planning is to have any goal at all, it must be to reach over a period of time, say of twenty years, a stage at which the rate of economic development on the one hand, and that of the movement of population on the other are so adjusted that a steady rise in the per capita income is assured. This course of action would provide conditions of fair employment from which further stages of more and more productive employment can be reached. Pending the attainment of this first landing stage on the road to rising progress, employment for a large part of the population will have to be found in agriculture. This is not possible without a wide distribution of opportunities for cultivation of land. The Constitution of the country does not treat private property in the means of production as in itself an undesirable thing. On the contrary, with specified exceptions, it guarantees the right of property. In the circumstances, the only way in which the large majority of rural population can be provided with work opportunities in a

society where economic concentration is to be avoided, and equality of opportunity is to be established, is by redistributing land on the widest possible scale. As this is to be done by legal process it is only natural that land for redistribution, which is to be requisitioned from private owners has to be paid for on terms considered to be socially fair. The great merit of the *Bhoodan* movement consists in this that the social evaluation of ownership of agricultural land beyond what one actually cultivates with the assistance of one's own family is drastically reduced, thus strengthening the hands and facilitating the way of legislative land reforms. The physical quantities of donated land made available through the *Bhoodan* movement is also not negligible. In spite of the strict injunction of the Constitution, and of the specific provisions of the First Five-Year Plan, in large parts of the country no appreciable progress has been made in regard to deconcentration of the possession of land as an instrument of productive activity. In some other parts where a framework of law has been created in support of accepted ideas of land reform, actual formulation and execution of the law are being pursued in such a way as to defeat the basic purpose of decentralization and of equality of opportunity. In fact, there is reason to apprehend that second thoughts which do less than justice to the values contained in the Constitution have begun to assert themselves in some quarters. Unless a strong movement for land redistribution is kept up at a high level of public support, there is serious danger of the very basis of agrarian democracy being too loosely laid to support the structure of a Socialistic State.

The Constitution of India as it stands does not sanction a collectivist solution to the problem of distributing land as a means of production among the larger number of people who, in the absence of any other means of employment, must depend on land for their occupation. Considering the large number of agriculturally employed persons, and the limited area of cultivated land, it follows that any scheme of redistribution would leave the average "holding" too small to be economic. As the technological standards of cultivation improve the size of an economic unit is likely to show a material increase. Confining ourselves to such standards as may be incorporated into our extension programmes during the next twenty years, it would be seen that even for the immediate future in many cases, for economic use agricultural land will have to be pooled in much bigger blocks than would be available to individual holders under any scheme of equitable distribution. A programme of joint cultivation thus occupies a central place in our schemes of agricultural development. The implications of joint farming, however, deserve very careful consideration. It should be clearly stated that the only kind of joint cultivation, which it would be proper for authorized developmental agencies to propagate, is joint cultivation which can be confidently expected to have a better economic prospect than would be available for individual cultivators assisted by institutional aids which can be offered to them through cooperative channels. Any sponsoring of joint cultivation which is not designed to secure to the farmers themselves concrete and sizeable economic benefit would be inconsistent with the purposes of democratic planning.

Wherever joint cultivation is likely to yield appreciably better economic results one may confidently advocate its adoption. A suitable educational programme in support of such a step should be undertaken without delay. As normally an extension or community project organization would exist in areas selected for joint farming, educative and demonstrative programmes connected with it can be easily incorporated

into the overall extension programme of the area. Experience of extension obtained during the last four years proves beyond doubt that proposals for innovations either in behaviour or in institutional activity which can be demonstrably proved to be in the interest of the cultivators are accepted without undue resistance. The educative effect of successful acceptance by one group rapidly spreads to other groups in the same and in adjoining villages. Beyond intensive educational and organizational activity no more social or legal pressure is normally necessary. Joint cultivation involves the readjustment of legal rights, not only of the individual farmer but also of his family. It is, therefore, natural that some legal provision for the incorporation of joint farming will have to be made. A programme for the creation of joint farms based on firm calculations of economic benefit and accompanied by normal extension education will be easily fitted into democratic functioning of community life in our rural areas.

Two things regarding joint farming are obvious. On the one hand the process of fragmentation and subdivision of holdings has gone so far that there should on *apriori* grounds be considerable scope not only for consolidation, but also for joint cultivation. Even where land reform legislation is combining some consolidation with redistribution of lands to tenants and agricultural labourers the average size of farms in many areas is expected to be less than what, with available means of cultivation, can be considered as optimum. On the other hand, in the comparatively hard and trying conditions of Indian farming the incentive of direct personal responsibility for the product is so essential that any weakening of this, not counter-balanced by appreciable advantage on the technological or organization sides, is likely to prove injurious to the objective of greater production. That joint farming, in the initial stages, would make far more conspicuous unemployment is a possibility which must be taken into account before large-sized programme of joint farming is undertaken. Joint farming, especially cooperative joint farming, represents a higher form of organization which for its success depends on favourable economic conditions and on adequate training and experience.

The extension organization has a first hand appreciation of the physical, organizational and psychological situation prevailing in each block. It should not be difficult for extension staff first to spot the most eligible places where to initiate a programme of joint farming and then to make the demonstrational and promotional effort to establish societies for the purpose. One obvious indicator would be the prevalence of a large number of definitely uneconomic farms. It should be very easy in this situation to plan and to demonstrate a more economical and productive grouping and reorganization of members' resources including land. Even here it would be worthwhile to proceed initially on the pilot principle. Another situation in which economists and planners could combine to initiate a more radical programme is the existence of many farms of a size which is much larger than can be cultivated by a farmer without the aid of hired labour. It would be an elementary step in land reform in a society which describes itself as socialistic to restrict individual holdings to a size which can be self-cultivated in the genuine sense, that is, without the help of hired labour. All land in excess of such ceiling should be available for redistribution. For a long time and in most places the number of landless agricultural labourers or very small holders having a claim to share in the disposable surplus would be so large that it would not be possible to allot enough to each to make an economic unit. In all such cases while a share in the right to hold land should be distributed, the use of the land to be economic should be organized in a

cooperative society. Here again the advantage of joint cultivation can be easily demonstrated, and in the absence of a vested interest a more productive regrouping could be easily brought about. Once the benefits of joint cultivation are established the normal extension and democratic process may be left to convey even to the more substantial farmers the real lesson of joint farming.

The extension organization provides a machinery which may be utilized for the purpose of identifying the areas where cooperative effort among the several classes of farmers can with advantage go on to actual joint cultivation. That farmers generally, and especially small farmers, can contribute to the most productive use of land by participating in a progressive programme of agricultural development is obvious. In fact it is not difficult to demonstrate in favourable situations that not only their interest, but also their duty, consists in participating in the national programme of agricultural development through cooperatives. The real justification for a land reform measure is that in its absence the resources of the community, land, labour, capital and organization, are not put to most productive use. If after redistribution of land standards of cultivation were to fall or were to remain avoidably stagnant the reform measure would not contribute to the welfare of the community. Even where as a matter of social policy land has been withdrawn from one owner and conferred on another, the community's interest in its use is paramount. Both the act of revocation and reconferment have the same justification, viz. social interest which includes the legitimate interest of individuals. It was never as true, as it is today in regard to all means of production in India, that the State is an active partner in ensuring, and if necessary guiding, their best possible use for the community as well as for the individual.

The State sponsored movements of agricultural extension and community development stem from this realization of the new opportunities as well as the new responsibilities of the Indian people. The small farmer, who is the corner-stone of the edifice of our new rural life, is not likely to command by his unaided effort those resources of technique, capital and organization with the help of which his business of cultivation is expected to prosper. The national extension movement is a timely step in providing by community effort, State as well as local, those resources which in a capitalistic economy can be had only by the rich. State initiative and State partnership in a popular movement of community action in the pursuit of a better, fuller and more progressive life is the substance of the community project and national extension movements. It is most appropriate also that provision of resources is being planned through cooperative institutions which draw in proper proportion on public as well as private resources, on State guidance as well as private initiative. To leave the small cultivator to his own resources of enterprise and organization, is to perpetuate the regime of rural stagnation and capitalistic exploitation. To assume State responsibility for direction without popular initiative is to inaugurate an authoritarian regime which is bound to fail economically as well as politically. In a democratic State which is planning to build a progressive economy on welfare principles an equitable partnership between the State and the individual farmer can alone help to realize prosperity without the loss of freedom.

Several proposals designed to regulate the possession and use of land as also the manner of channelling public resources into the operations of individual farmers and their groups, have occasionally evoked protests on the score of individual liberty. One

would have thought that by now it would be obvious to everybody that the enjoyment of freedom cannot be real to all citizens without ensuring conditions of equality of possession and of opportunity. Any action taken in pursuance of a programme of equalization would be in support of individual freedom. This should be specially obvious in the Indian Republic where the purposes of a welfare State are inscribed into the Constitution, and where programmes in support of the same are being formulated through the Planning Commission. It is only a positive and creative concept of individual liberty which is compatible with a welfare and planning State, and not the negative one of lack of restraint on each, irrespective of its effect on the real enjoyment of freedom by all.

One would feel that this is too obvious to merit a repeated mention. And yet it has been my experience within the last year or two to be recipient of almost a personal remonstrance from at least two persons holding responsible positions who felt that discouragement of small village cooperatives, and State participation in the capital of cooperative societies somehow constituted a shocking violation of individual liberty. More specifically both of these gentlemen felt that the doctrine of individual liberty propounded by John Stuart Mill as the basis of civilized freedom and of democratic government was somehow violated by the proposals contained in the policy of ensuring by State participation in farmings' cooperatives that the means of positively benefiting by land reform and agricultural extension reach the under-equipped sections of cultivators.

There are elements of absolute truth in the mature thought of all philosophers, but the specific expressions and illustrations used by them naturally reflect the limitations of their own time and environment. One need not, therefore, be accused of compromising with one's regard for liberty if one prefers a varying expression or an altered field for the effective establishment of freedom in other times and in altered circumstances. Mill himself clearly distinguished between the doctrine of political liberty, in so far as it consists in lack of restraint on holding and propagating opinion and in pursuing modes of behaviour, on the one hand and social relations arising out of vital interests affecting individuals as well as the community on the other. For instance, Mill specifically excluded consideration of the doctrine of free trade from his discussion on liberty. As is well-known Mill not only recognized that there are limitations on the beneficence of *laissez faire*, but he went so far as to justify formation of commercial corporations by the State in backward countries. Almost everywhere he favoured State interference in the spheres of education and of family planning. What Mill objected to were restriction and interference which hampered the universal urge to exertion and development. Regulatory and positive acts of the State which expanded the area of enterprise and progressive activity would be welcomed by all, and especially by Mill, as essential bulwarks of liberty.

It is somewhat symptomatic of the only partially emancipated stage of the Indian people that people in responsible, almost strategic positions, should still quote Mill in support of a policy of apparent voluntarism which only breeds capitalistic exploitation. It is to be hoped that the new generation will be more untrammelled in its endeavour to build an equalitarian and progressive social order. In designing and guiding the rural sector of that order the agricultural economist has an important part to play. In its comparatively brief career of separate existence agricultural economics has already

achieved considerable progress and recognition. No small amount of credit for this achievement is due to the Indian Agricultural Economics Association. Not only the general problems connected with the condition of peasants, but specific problems such as land reform, credit, marketing and farm costs have been intensively studied by members of the Association. Thanks to the coordinated efforts of the Research Programmes Committee of the Planning Commission, the Agricultural Economics Committee of the Indian Council of Agricultural Research, and the Economics and Statistics Directorate of the Food and Agricultural Ministry of the Government of India, a large measure of purposeful research in the economic aspects of agriculture is proceeding in a number of places. This research has no doubt served a useful purpose in making agricultural economics more specific and more creative.

In view of the urgent needs of agricultural planning and development it is desirable that this trend towards enlarged and specific studies should be carried much further. Some aspects of agricultural policy have a justification based on much broader grounds than economic. But the whole programme of getting the best return out of agriculture, becomes more and more important each day. All aspects of economy, especially the rural economy, which have a bearing on this problem need intensive study. On account of the continental nature of our economy any study to be significant and fruitful has to be carried out in appropriate regional environment. Coupled with the tendency towards greater and greater specialization, this would mean that unless studies in agricultural economics are conducted in a large number of places, under varying conditions, agricultural economics will not be able to make its full contribution to the understanding and solution of the problems of Indian agriculture.

In the absence of sufficient analytical and practical studies undertaken by our own scholars there is an occasional tendency among policymakers to rely too trustfully on some generalized claims and suggestions based on foreign experience. I would agree that it is not always the absence of such indigenous material which makes some of our policymakers more receptive to foreign than to Indian suggestion. Probably this attitude is a vestige of foreign domination which can be expected to vanish only as local achievements become more substantial. Here indeed is a challenge to Indian economists generally and to the agricultural economists in particular. There are several aspects of urgent national policy which in the absence of convincing findings of local research are being decided on purely impressionist suggestions, often drawn from tentatively reported foreign experience. For instance, the decision on promoting a programme of joint farming, in so far as it is based on economic grounds, assumes a number of economic propositions about the optimum scale of cultivation under varying conditions. Such conditions are not only physical and technological, but they are also organizational.

That conditions of soil, crop and technique will influence the size of the optimum unit of cultivation, whether under individual or joint cultivation, is easy to understand, though even here the full economic implications of the various physical and technical factors involved need to be brought out much more specifically than has been done hitherto, if practical policy is to be more rationally guided. But the various implications of organization for joint services such as credit, supply, marketing, technical advice, etc. have to be studied in detail to decide as to which of these must be made available to joint farming units, rather than to individual members of farmers' coope-

ratives, so as to be most effective. In regard to the form, size and activities of the co-operatives themselves a constant study to assess not only usefulness generally, but specific economic advantage in terms of the costs involved, is necessary. In the absence of such study planning is apt to degenerate into an authoritarian sponsoring of ill-assorted measures.

Like other sectors of the economy agriculture has now to be studied in a developmental context. The position of agriculture has to be viewed in the perspective of a long-term objective for the economy as a whole. The contribution by way of employment, production and investment which agriculture would make to the plan and the contributions by way of capital, supplies and demand which agriculture would expect from the other sectors have to be worked out by agricultural economists as their share in plan making. In the past while other sectors of the economy have evoked both interested and analytical participation by experts during and after the formulation of plans, agricultural economists as such have made only a modest contribution. This is due primarily to the fact that agricultural economics in India is still mostly concerned with problems of organization, status and latterly methodology of farm surveys and cost studies. Data collected by these studies will no doubt be valuable in constructing an agricultural plan for the country. But unless economics becomes development-minded and economists study the business aspects of alternative forms of land utilization under varying conditions of technology, crop pattern and organization not enough rational planning is possible. The factual data, analytical tools and planning experience needed to achieve the requisite degree of competence cannot be developed within a short period. By all accounts in other developed countries also, capitalist as well as socialist, development of agricultural economics has taken a long time, and even today for analysis as well as planning agriculture continues to be on a much less firm ground than, say, industry and finance.

The process of carrying economics nearer to the production and sale aspects of agriculture which has already commenced has to go a long way so that agricultural economics may really claim to be economics of agriculture. Some division of labour seems to be indicated in this respect. While scholars studying agricultural economics in universities might with advantage attend to problems in which field and operational conditions are not so important, a more intensive study of production and business aspects of agriculture must be more systematically pursued in the economics departments of agricultural colleges. The number of agricultural colleges is small, and not all of these have a well staffed economics department. There is a real need for increasing the strength and equipment of economics faculties of all agricultural colleges.

The Food and Agriculture Ministry which has not established a well-deserved leadership in organizing intensive studies in several research centres, may exert itself further to ensure through central assistance the creation and augmentation of an economic research section in all agricultural institutions. The large number of agricultural extension organizations, including their training counterparts, must also include agricultural economics units. Unless extension becomes more and more economics-minded, and in its turn economics becomes more and more extension-minded both will tend to be superficial, and on the whole fruitless. Agricultural economics can least afford to be a cloister study. It must be very near the field and the *mandi*. In large measure

it must be part of the study of agriculture and of the developmental efforts made for it through extension organization.

What is termed agricultural extension in other countries has only a limited application to Indian conditions at present. Extension is essentially an educative process of carrying to the practical user the most advanced lessons of scientific research. The success of this process pre-supposes a developed research organization at one end, and an active, well-equipped and integrated community life at the other. At present not only are our research achievements too modest and too general, but they rarely have a directly economical angle on their results. In researches connected with a few commercial crops some coordination between economic and technical aspects has occasionally been attempted. But nowhere has economics, i.e. calculating inputs and outputs, and studying the business aspects of the utilization of new methods, been incorporated into that body of research knowledge which extension seeks to carry to the actual cultivators. There is urgent need to develop all agricultural research, but the need to develop economic research as part of developmental research is all the greater. In the rural areas themselves general education, as also growth of habits of progressive action through institutional channels have to progress considerably before all the efforts at organized development can gather enough momentum to constitute an agrarian revolution. While agricultural economics as such has not much active part to play in promoting this change, it has to realize that mutually complementary movements in fields like transport, industries, education, community development, etc. have a very close bearing on agricultural progress. In fact development can never be sectional. It is an integrated process where urban and rural, industrial and agricultural, in fact economic as well as the broader cultural movements all move forward and strengthen one another, the pace of one conditioning the pace of others.

There is hardly any issue of agricultural progress, as indeed of the whole pattern of rural development, which does not raise fundamental questions of social policy. Land reform undertaken with a view to giving to the agricultural worker his share of the means of productive employment, and establishing him in such a relationship to land as would maximize his incentive to efficiency is only the beginning, though an essential one. Even this, however, presupposes acceptance of a certain concept of property and of distribution of resources which is fundamental to our constitution, and which it is obligatory of us to follow not only in agriculture but also in other spheres. This is not merely a question of formal consistency. Reforms in agriculture cannot move forward on rational and progressive lines unless the acceptance of common principles of social organization is ensured over the whole field of economic activity. Thus the adoption of joint cultivation in suitable conditions involves an act of voluntary surrender on the part of an agricultural family, which has, as a rule, more man-power than can be economically utilized with the assistance of available land. Howsoever one may try to disguise the fact any rationalization of the size of the farm and the use of available means of employment is bound initially to create in many cases a concentrated degree of unemployment in rural areas. Unless there is some programme for the rational use of this surplus labour the overall social and economic effects of a forcibly rationalized agriculture may not be altogether beneficent. In other words, we cannot afford to be progressive and socialistic in agriculture, without being at least equally progressive and socialistic in other spheres of economic life. Most of the earlier

attempts at a socialistic reorganization of society, even those in some of the communist countries, have been at the cost of the tillers of the soil. One service which agricultural economists can at this moment render to their science and to their fellowmen is to state the overall conditions in which alone it would be fair to expect that agrarian socialism, even in its more democratic form of cooperativism, would prove practicable as well as beneficent.

Small Enterprises and the State Bank of India

THE Imperial Bank of India had no use for small enterprises. It was bankers to, and was supported by, the British Government in India. Besides the Government its principal clients were relatively big businessmen who were generally supporters of the Government. This inner harmony between the Imperial Bank and the British Government of India could naturally not survive after Independence. The new government was composed of people whose ideals and values were quite different from those adopted by the Boards of the Imperial Bank. While in the routine business of Government not much difficulty was experienced in utilizing the agency of the Imperial Bank, in several essential policies of broad-basing the structure of Indian banking business, and of directing the flow of credit into channels favoured by national economic policy, the structure of the Imperial Bank as a private shareholders' bank was found to be unsuitable.

Every proposition for a forward view either in respect of opening of new branches in the interior of the country, or for extending credit to important sectors of national economy, such as public sector industries, small industries and cooperative societies, was viewed by the Imperial Bank, not merely from the standpoint of maintaining a fair and steady return on its capital, but of exploiting all its opportunities for maximizing the rate of dividend, and for preserving for their traditional clients most of the advantages arising out of their favoured position. A democratic government of independent India committed to an active and large sized programme of economic development in which all sections of the community, large, medium and small, were expected to take part, could not tolerate the continuance of this institutional disharmony for a long time. Especially after the inauguration of our era of planning the Imperial Bank was clearly seen to be a misfit.

The Reserve Bank which adapted itself much more readily to the change in the composition and policy of the Government of free India was quicker in modifying its law and procedure. As the result of an informal conference of official and non-official

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persons interested in the more widespread and adequate provision of facilities for agricultural credit the Reserve Bank modified its lending policies in two important respects. Whereas in the past lendings by cooperative banks based on the collateral securities offered by borrowers were alone repledgeable with the Reserve Bank for concessional reimbursement, it was now provided that cooperative societies may legitimately lend on the security of the crop which it was intended to finance out of the short-term loans borrowed by a member. It was recognized that marginal and near-marginal cultivators will never be able to raise the standards of their production if all the resources for development which they could command depended on their past productivity. With a new programme of intensive agricultural development adopted by the State, starving the small farmer of the needed credit resources would have been nationally unjustifiable and uneconomic.

Another significant change in its loan procedures adopted by the Reserve Bank was to operate a running, instead of a terminable, credit limit for cooperative institutions. The old system was to insist on an annual clearing of accounts with apex cooperative banks before fresh limits for the new year were sanctioned. This caused real hardship and an unwarranted limitation on the productive use of credit. Some crops have a cultivation season extending even beyond a year, and in many, if not most, cases cultivation expenses have to be incurred before, during and after actual cultivating activities. These two reforms have brought about a very striking improvement both in the quantity and the productive effect of cooperative lending by the Reserve Bank of India. Though it is true that even today a large number of small farmers cannot get adequate cooperative credit to enable them to improve their standards of cultivation the developmental impact of the new policies followed by the Reserve Bank of India on the farming community as a whole has been very encouraging.

There was obvious need to do for the small industrial producer, modern or traditional, individual or organized, what was thus attempted for the small and medium agricultural producer. The technical, organizational and marketing problems of industrial producers are much more complicated than those of agriculture. The impact of the wider economic situation, internal and international, on the short-and long-term problems of industry is one of the determining factors governing their fortunes. Industrial units also tend to be dispersed, thus making even more difficult any cooperative action among them. There may be some areas and some industrial pursuits in which primary cooperative organizations among small and medium producers could be promoted with advantage. But for the average small enterprise in industry easy access to sources of financial service must be offered by the normal institutions of banking. The record of the several banking systems of the world is not uniform in this respect. But it is not without significance that small and medium industries have flourished, as in Switzerland and Japan, where the banking system has deliberately and purposefully adopted a policy of nurture and growth of promising units.

The commercial banks in India had very limited resources and their industrial lendings, when planning began in India, were meagre. Their operations were largely centred in the leading industrial and commercial cities where all their resources were fully taken up by the more substantial parties. The only institution which could be entrusted with the responsibility of chalking out a new course of developmental assistance to the small and medium industry sector was the Imperial Bank of India, which in

substance, though not in form, was a publicly supported institution. The Reserve Bank of India had, in 1953, been empowered to provide, through appropriate channels, short-term accommodation for approved cottage and small scale industries where such accommodation is guaranteed by government. The Reserve Bank thus equipped itself to promote non-agricultural finance through industrial cooperatives and cooperative financing agencies to the maximum possible extent. By operating the line of agricultural credit as a supplementer of the overall resources of the cooperative banking system, and by offering specially attractive terms for the financing of handloom cooperatives, the Reserve Bank has been trying to make all the viable and progressive cooperative banks as industrially minded as possible.

It cannot be claimed that the financial needs of industrial cooperatives have been satisfactorily met in all areas. It does not always happen that cooperative banking has developed satisfactorily in areas where financial needs of industrial cooperatives are pressing. While on the one hand all efforts are being concentrated on improving the strength and efficiency of cooperative banking units the immediate needs of industrial cooperatives must be met by some banking institution which has the necessary resources and which can appreciate the national purpose underlying the promotion of small and medium enterprises as an essential part of democratic planning. The need to rely on a strong financing institution for this purpose is all the greater in regard to the large area of industrialization in which a cooperative organization among enterprises is not natural or easy. It was in this context that the Imperial Bank of India was approached with a suggestion that it may with propriety turn its attention towards small enterprises, cooperative and other, whom it alone could hope to reach through its branches.

The Committee set up by the Reserve Bank to review the whole structure of rural finance came to the conclusion that unless the Imperial Bank of India and other State-associated banks were nationalized so as to form one integrated system of publicly sponsored credit, the major purposes of national economic policy, especially those concerning small industrial and agro-industrial enterprises, will not be adequately served. As they observe (at page 358 of their General Report) :

“A further item of potential significance is that the new institution can be of assistance also in the matter of financing of cottage and small-scale industries, where these are specially large and important, but at the same time happen not to be organized on a cooperative basis. Here again, it will have to be remembered that the institution should not be treated as if it were a limb of the State and that what is essentially required is to ensure, both on the part of Government and of the institution, a mutually responsive attitude directed towards the national good, and therefore also towards something which can surely not be inconsistent with it, namely, the good of the institution itself.”

The Village and Small Scale Industries, Second Five-Year Plan, (Karve) Committee addressed a similar suggestion to the State Bank. In Para. 62 of their Report they observe :

“In fact, the overall conformity of the cooperative sector to the general purposes of State policy should make it both easier and more necessary for the State Bank of India to take an increasing interest in the financing of village and small-scale industries. The normal practice should, however, be to draw on the resources of the State Bank only where the nearest cooperative financing agency is unable

to meet the legitimate requirements of industrial cooperatives. For this purpose, channels of communication and consultation have to be built up between the State Bank of India and the cooperative organizations.”

The same (Karve) Committee went on to say further that : “The advice and guidance of the Reserve Bank should, besides, be available to the State Bank of India in respect of the latter’s functions in regard to cooperative industry and marketing.” (Para 63).

And again : “To ensure proper coordination, a concerted financial policy should, we recommend, be chalked out at as early a stage as possible, by the Reserve Bank, the State Bank of India, State Financial Corporations and the Central cooperative banking institutions.” (Para 64).

The Committee concluded this part of their recommendations by saying that : “...there are legitimate requirements of small scale enterprises which must properly be satisfied by the normal financing agencies e.g. the State Bank of India, State Financial Corporations and the Commercial Banks. We expect that with more familiarity with industrial business, and with an improving prospect for indigenous small scale industry, these financing bodies will find it increasingly advantageous to extend their business to small scale industrialists as well.” (Para 68).

It will thus be seen that the new orientation of the policy of the Reserve Bank to promote development support to small enterprises, in agriculture and in industry, was a major consideration which led to the creation of the State Bank of India. It was, therefore, in the fitness of things that the first Board of Directors of that Bank, which contained a fair number of active supporters of the new policy, lost no time in adopting a policy of liberalized credit for small industry and cooperatives. The Bank took active steps in setting up its Local and Central Coordinating Committees for a periodic review of progress of small industry finance. On these Committees were appropriately represented the State Bank, Reserve Bank, State Financial Corporations, Industrial Finance Corporation, other Commercial Banks, Government Departments of Industry and Apex Cooperative Banks. Much of this orientation and activity were so unfamiliar to the directing and operating staff of the State Bank that considerable time was taken up in re-orienting outlook and procedures. The feeling that somehow there was more than legitimate banking risk in the business, that bills receivable from a Government Department or Public Authority were somehow not comparable to commercial bills, persisted for a long time. Quite understandably, initial progress in quantitative terms was rather slow in regard to finance of small industry, and even slower in regard to finance of cooperative concerns.

It was at this stage of the progress of small industry finance by the State Bank that the Japanese Delegation on Small Scale Industries arrived in the country. All the observations and recommendations of this group are of great moment inasmuch as they come from objective and sympathetic observers who are the world’s most successful practitioners of small and medium industry. With the major observation of this group that the Government in India appear to do almost too much for favoured enterprises and thus the initiative and responsibility of the enterpriser is stunted, we have only an indirect concern in the present context. They were, however, quick to note that in spite of the fact that the declared policy of Government is to support small industry, especially cooperative industry, and that the State Bank of India was set up,

among other purposes, for the specific purpose of meeting the financial requirements of small enterprises its actual performance to date was poor. They remarked :

“When the amount of outstanding loans to small-scale industries (Rs. 8.6 million) is compared with the total amount of outstanding loans of Rs. 1,586 million of the State Bank, the former’s proportion to the total amount is only 0.6 per cent. Although it is not long time after the bank was nationalized, it must be said that the actual results of bank’s money lending concerning small-scale industries have belied greatly the expectation originally entertained by the Government.”

Such a judgment could have its origin at least partially in not recognizing how unfamiliar the whole field of finance of small enterprise was to the traditions and procedures of the erstwhile, more than a century old, constituents of the Imperial Bank of India. The delegation from Japan was, however, quick to recognize that the absence of guarantee organizations among the small enterprises themselves, or of any comparable institutional arrangements, was a great obstacle in the way of a striking progress of liberal credit for small industry. Acting on this and other corroborating advice, the Government of India soon set up a Guarantee Organization for finance to small industries. This organization is open to all commercial and cooperative banks and its management is mostly guided by the Reserve Bank of India.

Since its very inception, the State Bank has agreed to offer all its small industry business for guarantee by this organization. No other bank has yet followed this salutary practice which would on the one hand strengthen the guarantee organization itself, and encourage the banks, on the other to do even more for small industry finance. The Guarantee Organization itself will gain by more intimate understanding of the problems faced by small enterprises and by the field representatives of their banks. Reform in regard to the structure, operation and acceptance of the Guarantee Scheme is urgently called for. But even as it is, it has made the commercial banks generally, and the State Bank of India in particular, far more willing to enter into normal business relations with small enterprises than what they would have been otherwise.

This is borne out by noticeable progress made in recent years by the State Bank in its lendings both to small individual enterprises and to cooperative institutions. The following table prepared from figures published in the Annual Reports of the Bank is meaningful.

STATE BANK OF INDIA

(Lakh of Rupees) (1 US \$ Indian Rs. 7.50)

Year	Total bank advances outstanding at the end of the year	Advances to small industries (Working capital advances)	Advances to cooperatives	Percentage of col. 3 to col. 2	Percentage of col. 4 to col. 2
1960 ..	232.24	3.66	4.70	1.6	2.0
1964 ..	393.04	15.17	9.73	3.9	2.5
SUBSIDIARY BANKS					
1964 ..	95.50	3.89	2.01	4.1	2.1

This indeed is noticeable progress since the time which the delegation from Japan had in view. In the Chairman's speech, in the last Annual General Meeting of the State Bank, details of some further progress have been given. A closer scrutiny of year to year figures will show that the tempo of quantitative improvement in 1964 over the previous year was markedly higher than that for previous years. If this indicates that all the spadework of orienting the staff of the Bank, of improving procedures and of developing the necessary expertise among the field and supervisory personnel is now well-nigh done this would be a good year to start a period of real progress. Quantitatively even the improved figures for the latest year are not fully in conformity with the specific role designed for the State Bank of India by government policy. The large measure of decentralization which has been brought about by recent amendments of the State Bank of India Act may be expected to give the necessary incentive to and flexibility of, the Bank's developmental activities in this sphere.

The Chairman himself, than whom no better informed or more sympathetic supporter of the developmental approach to small and cooperative industry can be found, was fully aware of this crucial stage in the progress of the scheme. Even with the improved figures of 1964, whereas the total industrial advances of the State Bank are 76.5 per cent of its total advances, and advances to public sector industries are about 11 per cent, advances to small enterprises account for only 4 per cent of total advances. This is just about good enough to start with at the end of ten years of nationalization. As the Chairman says :

“But all this does not amount to as large or as positive a contribution as we might eventually be able to make—that is to say, if we adequately equip ourselves in the matter of personnel, organization and procedure—to the solution of the vast and diversified problem of rural credit in different parts of the country.”

Speaking more specifically about the Bank's contribution towards meeting the financial needs of small industries the Chairman said :

“Our policies and procedures in this regard are being reviewed, liberalized and adapted to the actual needs of small entrepreneurs from time to time and we may reasonably claim to have laid the foundation for even more rapid progress in the future.”

All well-wishers of the State Bank, and of small and cooperative enterprises, would most readily echo these sentiments, and look forward to the next decade which, we trust, will register a more substantial and striking performance so as to fulfil more obviously what the delegation from Japan describes as “the expectation originally entertained by the Government.” In assessing the merit of the performance of the State Bank and its Subsidiaries we must take into account not only the amounts directly loaned by them, but also by the growing volume of finance flowing from commercial banks into this sector. Like the Reserve Bank, it is the leadership of the State Bank, in setting up a new tradition and a new norm, which would be its most significant contribution towards building up a powerful decentralized and cooperative sector in the nation's economy.

Bankers and Farmers in Australia

THE current pressure of public opinion on the bankers — in the private as well as public sectors — to turn more purposefully and more adequately towards farming enterprises is indicative of a new confidence in economic prospects, as well as the economic importance of all aspects of agricultural business. That the bankers as a class have been very slow, and continue to be very slow, in appreciating the need and the prospects of dealing with agricultural and agro-industrial, or broadly with rural enterprises, cannot be gainsaid. Professional bankers will find much to interest them in the policies and practices followed by their counterparts in Australia, where a fairly large part of the nation's business, and also of the trading of commercial banks, is rural.

It is necessary to emphasize that though the scale of operations of rural enterprise is very much higher in Australia than in India, the character of rural lending is not very different. The Australian bankers have not to deal with subsistence farmers. Loans to subsistence farmers anywhere are part of money-lending usuary, and not of banking business. But Australian bankers have to do business with quite a large number of marginal units of rural business. The business, moreover, is subject to many fluctuations. Besides wide fluctuations of climate, droughts and floods, there are fluctuations in market conditions as well. Almost all products of stock farming are subject to wide and sudden fluctuations in the world markets. Both the Australian bankers and the Australian governments, in fact all credit agencies, private and public, have to play their part in minimizing the impact of such fluctuations on their own business, and on the business of farmers.

MAJOR TRADING BANK

The credit needs of farmers, or rural producers are varied. Farm purchase, farm development and farm operations have all to be financed largely by advances obtained from institutional and other lenders, the share of "other lenders" being almost equal to that of institutional lenders. The major trading banks are by far the most important among institutional suppliers of rural credit. Besides the Commonwealth Trading Bank — which is part of the Commonwealth Banking Corporation, set up by Common-

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wealth Statute and controlled by a board appointed by the Commonwealth Government — there are seven other large-sized banks which operate throughout Australia. Each of these banks conducts an extensive network of branches and agencies. As on June 30, 1965, the eight major trading banks supplied 585 million Australian dollars of rural credit, fully 45 per cent of total institutional borrowing by agricultural producers.

Most bank loans are by way of overdraft. In this method, the borrower is permitted by the bank to overdraw his account up to an agreed limit. Interest is charged on the day-to-day debit balance, and thus the borrower pays only for the funds actually in use. In form, this is short-term credit, with the bank retaining the right to repayment at any time, but in practice much of it is longer term. Usually, the banks require periodic reductions to be made in the debt outstanding. In practice, reduction arrangements may be fairly flexible and may differ from bank to bank or from customer to customer; such aspects as collateral security, purpose of the advance, ability to repay, and current lending policies of trading banks will influence these arrangements. Advances may be made for a single purpose, including property purchases, property improvement, purchase of machinery or livestock, or for a mixture of such purposes or for working capital. It is common for an overdraft limit to be allowed to continue after the purpose for which it was originally granted has been met, and be available for other purposes. Major trading banks' overdraft advances to the rural sector represent from 20 to 25 per cent of their total overdraft advances.

SECURITY

Formal security is usually required by banks for all advances, except very short-term "temporary" ones. This security is normally in the form of a first mortgage over land and buildings. Each bank has its own standards by which to relate the value of the security with the size of the advance, but its primary interest is to see that the customer can service the loan and eventually repay it. The security available is rarely the sole consideration and a banker will frequently see an efficient and reliable customer through difficult times despite a deteriorating security position. Where security over real property is not taken, banks may take a lien over livestock, crops or produce, a third party guarantee or mortgage over life assurance policies.

The Reserve Bank of Australia, with the approval of the Government, regulates banks' interest rates. Banks are, in general, free to determine, within the approved maximum rate, the rate of interest to apply in the case of an individual borrower. However, the Reserve Bank may ask banks to give preferential treatment to certain types of customers, such as export producers including those in the rural and mining industries, both in regard to the availability of finance and the rate of interest charged. In view of this and the policies of banks generally towards rural industry, the average charge on rural advances would probably be around one per cent below the permissible rate. Rates charged to farmers for normal working finance are lower than those for property purchase and other types of capital expenditure.

Next to major trading banks, several State banks and ex-servicemen's settlement together answer for about 25 per cent of the total institutional rural lendings. All six Australian States have State controlled financing institutions active in the rural lending sphere. Though these institutions are not subject to the provisions of the Commonwealth Banking Act, they cooperate with the Reserve Bank with regard to its banking

policy. These State-controlled institutions act as agents for the respective State Governments in dispensing "special purpose" credit in the rural sector. Acquisition and development of land, purchase of equipment and stock, "relief" advances such as those designed to help producers to tide over difficult periods, are included in "special purposes." Sometimes, the State Governments derive part of their funds used for these purposes from the Commonwealth Government. Broadly, the credit provided by the State Governments for land acquisition has been long-term at low rates of interest; for other purposes it has been short-term, also at rates of interest below commercial rates.

Institutions known as pastoral finance companies, principally wool brokers, and also stock agents and produce merchants, have become, in recent years, an important source of credit to the rural sectors, representing about 20 per cent of institutional rural credit. In addition to acting as commission agents for the sale of farm produce, they also sell consumer goods to land-holders. These companies are usually prepared to finance their customers' activities pending the sale of their produce. Though their financial function is mainly to provide short-term and seasonal credit to their clients, some of them at least have recently evinced increasing interest in long-term lending as well. Usually, loans are secured by a livestock mortgage, or a lien on produce awaiting sale than by a charge over land. Frequently, however, formal security is not taken. Repayment is generally sought from the first returns, but because produce income is spread over the whole year, finance available is, in fact, continuous. The main sources of funds for lending by the pastoral finance companies are their own internal resources, plus public borrowings, in addition to credit funds held for clients, and loans from trading banks. The amount of credit provided to the rural sector from these sources varies from month to month, the seasonal peaks occurring at different times in different States.

It is of some interest to note that loans by life insurance companies secured by mortgage over farm properties represent a rising, though a small, proportion of rural credit. Such loans normally provide medium and long-term finance to farmers. Farmers may also obtain finance by borrowing against insurance policies. About 5 per cent of institutional rural lendings are represented by loans made by insurance companies. This is only slightly less than the amount loaned out by the Commonwealth Development Bank.

COOPERATIVES

By comparison, the role played by cooperatives in rural finance is almost negligible. In fact, no statistics are available under this category. Some cooperative dairy companies and cooperative packing houses in the dry fruits industry and elsewhere provide considerable amount of credit, but in total, it is probably fairly small. To some extent, these organizations would themselves be dependent on bank finance to enable them to provide credit to rural producers.

Rural producers sometimes have difficulty in obtaining finance for development from the usual credit sources despite apparently sound development schemes. Partly in order to meet this special need, the Commonwealth Development Bank was set up, especially to take care of developmental proposals for which finance is not available from the usual sources. In terms of its charter, the Development Bank, in determining whether or not to approve a loan, has regard primarily to the prospects of success of the

applicant's operations. Though the bank does not restrict the amount of its loans to a pre-determined proportion of the value of the security available, it does expect the applicant to have a reasonable equity in his enterprise. Needless to add, it also weighs considerations such as the borrower's integrity and managerial capacity. The major trading banks and State banks act as agents of the Development Bank. In addition to finance by way of loan, the Development Bank provides hire-purchase facilities for the acquisition of producer equipment such as tractors and agricultural machinery, as well as for plant required in secondary industries. In addition to the funds which the Development Bank obtains by borrowings, its funds are augmented by grants from Commonwealth revenues. The Bank helps research in problems of primary producers, who can obtain technical advice from specialist staff maintained by the Bank.

INFLUENCE OF RESERVE BANK

The Banking Act gives the Reserve Bank of Australia certain specific powers through which it can influence the activities of trading banks. The best known of these is probably the power to lodge amounts in statutory reserve deposits with the Reserve Bank. The Banking Act also gives the Reserve Bank authority to determine the policy in relation to advances to be followed by banks, and, with the approval of the Commonwealth Treasurer, to regulate bank interest rates. Generally, restrictive or expansionary lending policies by the banks apply to all sectors. However, rural producers have been given preferential treatment under advance policy as laid down by the Reserve Bank which has asked the trading banks to give priority in their lending to rural and export industries. Also, at times when seasonal conditions have been adverse, the Reserve Bank has encouraged the trading banks to give sympathetic treatment to those affected by such conditions. Apart from this general directive, trading banks are free to lend where they feel it is best to do so.

Although lending on overdraft has been the normal way by which the major trading banks make loans available to borrowers, fixed term loans are appropriate for some of the purposes for which credit is sought from banks. In April 1962, following an agreement with the Reserve Bank, which had till then encouraged the limitation of trading bank lending to short-term purposes, each of the major trading banks established revolving term loan funds. A feature of these funds is their insulation from the changes in liquidity controls which influence the provision of overdraft finance, and prevent the banks from committing themselves ahead for long-term. The defined purpose of the term loan funds is to provide fixed loans for capital expenditure in the rural, industrial, and, to a lesser extent, commercial fields, and also to finance exports. In the farm sector, term loans are made for developmental purposes, including the purchase of land, heavy equipment, clearing, pasture improvement building and fencing and livestock improvement.

Loans are made for fixed periods, usually three to eight years, though the arrangements may be varied to cater for activities which are not initially income producing. The initial size of the term loan funds was equivalent to 3 per cent of each bank's deposits. As the original funds have become committed, further augmentations have been made to them. All contributions to the funds have been on a basis of two-thirds from banks' statutory reserve deposit accounts and one-third from their other assets. Pending drawing by customers, these funds are lodged in term loan fund accounts with the Re-

serve Bank at short-term market rates of interest. The repayment of loans now constitutes a significant source of money available for new lending.

In March, 1966, following discussions between the Government, the Reserve Bank and major trading banks, the introduction of new farm development loan facilities was announced. These facilities are designed to provide rural producers, particularly small producers, with greater access to medium and long-term finance through the banking system. Loans under the arrangements are directed predominantly to developmental purposes which raise productivity. In examining applications for loans banks are prepared, in appropriate cases, to relax normal security standards; they give special consideration to the needs of creditworthy younger men with appropriate experience who have been unable to build up adequate resources. Each major trading bank has established with the Reserve Bank a farm development loan fund account from which to make such loans. The aggregate amount initially transferred to these accounts was A\$50 million, of which about two-thirds was provided from banks' statutory reserve deposit accounts and one-third from banks' liquid assets. Funds provided by trading banks in this way are additional to those available on overdraft, and from Term Loan Fund, and represent a net addition to bank lending in the rural sector.

ADEQUATE FLOW

Whatever may be the source of finance, its adequacy must be assured for any developmental programme of the farmer to succeed. Where the pattern of farming is static or traditional quite a number of farmers may be able to find needed finance from their own, or other customary, sources. But when a technological step up is planned, finance assumes critical importance. Few farmers can find adequate investment funds for development from their own savings. Borrowing becomes necessary, and an institutional source is always to be preferred as it may be more naturally expected to operate in conformity with the broader and long-term aspects of development. In fact, most development bankers would insist that the physical side of any development programme is properly and thoroughly planned and its costs carefully investigated. These costs must be set down to indicate how much money will be needed to complete the programme in all its stages. In any given situation there is an economic limitation on borrowing governed by the annual rate of cash retention on total investment, and the terms of available finance. There is also another practical limitation. Lenders provide money for use in a borrower's business; it is not their function to provide all the required capital, and in effect, become the owner of the business operated by the borrower. The point where a lender draws the line in the equity/borrowings relationship depends on the circumstances of each case, but drawn it must be, to ensure that the borrower will have sufficient financial interest to hold him to his property in bad times as well as good.

Against the background of this, by no means an unimpressive record of trading banks, one can easily understand the chagrin of Australian bankers when they are criticized for alleged neglect of agriculture. A spokesman of the Australian Bankers' Association has this to say, "it is extremely galling when, from time to time, the banks are taken to task by mischievous or uninformed critics on the grounds that they are reluctant to lend to farmers because loans to other sections of the community are more convenient, or more profitable, or both. This type of criticism is, of course, complete nonsense. The major trading banks have always given decided preference to rural borrowers both

in terms of the amount of finance provided from the funds available for lending, and the rate of interest charged.”

NOTABLE VARIATIONS

The ratio of rural to total advances of the major trading banks is around 23 per cent. But, there are notable variations among States. In Queensland this percentage is near 35, and in Victoria, it is near 15. Considering the substantial stake which trading banks have in the soundness of rural enterprises which they finance with avowed liberality, they do not seem yet to have equipped themselves with sufficient technically qualified and experienced staff which would enable them to undertake at least the minimum scrutiny and supervision which are necessary for the successful pursuit of a policy of developmental, in place of security-based, lending. A few banks, like the Commonwealth Bank, have some qualified officers at the headquarters. But by and large they still rely for agricultural loan appraisal, and guidance to clients upon “that ultimate in generalists, the branch manager.” This criticism must, however, be read in the light of the very widespread branch structure in Australia which has quite a large number of bank offices per head of population.

When they are accused of an unsympathetic attitude towards rural lending, banks have occasionally complained about banking controls exercised by the Reserve Bank of Australia. As a rule, these controls extend to all lendings, not only to rural lendings. In fact, during the recent periods of severe drought in parts of Australia, the Reserve Bank made special arrangements for banks to undertake lending for drought purposes outside the general policy of restraint. As a result, farm lendings by trading banks increased very sharply, and this enabled the banks to carry many farmers through an extremely difficult period.

The general, economic, as well as banking, policy is to give to rural producers a deal which is never less favourable than industry, and is in several respects designed to be even more favourable. Australian Governments have been broadly sympathetic to State action in support of social welfare. The Reserve Bank of Australia has given a lead in adopting a bold and progressive pattern of central banking in a country where agriculture is still very important, and which is still in a developing stage, though it has one of the highest per capita income levels in the world. A conscious effort at strengthening the national system of Australian banking, and directing it more purposefully towards the objectives of Australian economic development, is being made both by the Australian Governments and the Reserve Bank.

That subsistence farming is still prevalent in many parts of India, and that the average size of farms is very small, are well-known facts. It is equally obvious, however, that as a result of the new economic and political trends that have been set into motion, agriculture is becoming more and more market-oriented, and is striving to attain rising technological standards of productive efficiency. Even food crops are now commercially competing crops in many parts especially in irrigated tracts. By reducing foreign imports and by promoting exports several agricultural enterprises now rank among the highest economic priorities. Not only for good public relations, and for sailing along the currents of national policy, but also for their own professional competence and enterprise banks, private and public, have at all levels to adopt towards rural enterprises a policy which will be no less favourable than the one which they adopt towards

industry, but which in fact would be more purposefully promotional and developmental.

It would do good to nobody — bankers, farmers or the community — if the commercial banks were to do which they were not intended to do. Apart from the social value which is inherent in a business association based on self-help and mutual aid, as contrasted with mercenary service, cooperative organization makes it possible for men of small means to procure for themselves by collective action what they cannot individually obtain from a trafficking dealer. Their united existence not only enhances their credit, but it also ensures a maximum of developmental effort on their part. The essential economic merit of cooperation is, therefore, more readily and more appropriately appreciated by small farmers. Even here, it is well-known that, if cooperative organizations admit members who would be too bad a risk even for associations run on lines of mutual supervision and aid, their fortunes become precarious, and they have to be helped by special measures of social aid to make it possible for them to extend their operations to avowedly vulnerable sections of the community. At the very bottom of the economic scale there may be rural operators whose business needs are almost indistinguishable from living needs, and who can be helped only by the State.

Considering the large numbers of subsistence and marginal farmers who have eventually to participate in the developmental projects which form part of the national plan, a very well-marked field exists for State programmes, and for State-assisted co-operatives in the sphere of rural credit. There is also the obvious advantage of having comparatively simple and widespread network of rural credit institutions serving as a base for the structure of currency and finance in a country of over five lakhs of villages, many of which for a long time to come must remain outside the scope of more sophisticated business organizations.

SHIFT IN POLICY NEEDED

A number of small farmers whom a commercial bank would not normally welcome as a client would in many cases become welcome customers as a collective body for one or more of their transactions. This is a normal manner in which commercial banks may join their resources with those of co-operatives for the better economic advantage of both the small farm co-operatives and the banks themselves. What the integrated structure of co-operatives cannot achieve with its own resources may often be achieved with the support of commercial institutions. It may be either by way of augmenting the seasonal or investment resources of co-operatives, or by rendering to farmers through their co-operatives some of the banking services which they are unable to provide for themselves.

The commercial banks are in several cases meeting the needs of the larger plantations in respect of their processing and trading activities. The industrial and trading units which deal in agricultural commodities and requisites in one form or another are also within the normal scope of action of the commercial banks. With a greater appreciation by bank directorates of their opportunities and responsibilities in regard to agriculture, and agro-industries, a noticeable shift in their operations should not be difficult.

The number of substantial and progressive farmers is on the increase. As a rule, they do not easily fit in with the cooperative organizations in which members have an

equal share of directive power. In many of the irrigated parts of the country, a commercial complex of agricultural occupations is fast emerging. Not enough is done by the commercial banks through their branches as part of their normal business to seek out, nurse and develop this business. In recent years, the number of rural branches of the State Bank and other commercial banks is on the increase. Many among them are running at a loss, and the picture of collecting money in rural branches and using it in urban business is by no means rare. So many branch managers spread over so vast an area ought to be able to make a greater financial success of their branches by helping at least the progressive local farmers to achieve higher standards of farming enterprize.

The Australian banks take rural business in the normal course of their activities. For a recognizable and important sector of our agricultural economy, there is no reason why the Indian banks should not make a beginning to do the same. A more direct and comprehensive study of Australian experience by our bankers would be very opportune.

Agriculture and the Political Scientist

NOT many of us will find it difficult to appreciate certain basic propositions urged in this paper. The legitimate interests of farmers have to be carefully watched in the light of changing circumstances. The nature of the change, and the particular interests affected by it, would indicate, in each case, the nature and the agency of appropriate action. But in a very vital respect, governments have need to make up their mind as to what they should do about the changing needs of agriculture. By their actions, it is within the competence and normal operation of governments either to add to the costs and burdens of agriculture, or to create benefits and advantages for it.

How governments do act, and should act, in particular contexts is the subject of study for political scientists. So far as agriculture is concerned, the political scientists will be helped by the schematic presentation of the problems of change contained in the paper. It would, no doubt, be too much to hope that every political scientist will take the trouble to attain the economic sophistication which would be needed to understand and to appreciate such a scholarly and constructive presentation as is given in the paper. But those of the political scientists who take interest in agricultural policies of government may be helped by association with concerned economists, who should find it possible, with the help of this paper, to clarify the issues for their counterparts from among political scientists. In fact, if I may say so, to make such contacts mutually helpful, at least some agricultural economists, on their part, will have to be alert about the political implications of the needs of agriculture at different stages of its development. This could, of course, be said of some other allied disciplines such as sociology and agronomy.

Underlying the schematic patterns of change on the one hand, and their implied significance for governmental action on the other, there are several significant facts. I would like to refer to a few among them. For instance, when we speak of factors of change, which aspects of change have we in view? Are these only the physical changes, such as the rates of growth of population and technological transformations, which we obviously see? Changes in the knowledge, motivations and institutions of people — how are we going to take these into account? Even in regard to physical and technological changes—their impact on agriculture will depend in no small measure on availability of alternative courses of action. It would be difficult to construct, even for academic purposes, a uniform scheme of classification, and of change, which would adequately

cover all the probabilities of different combinations of all the variable features which would abound in practice.

Especially, as among different parts of the world, the physical, institutional and human factors would tend to be very different. Propensity of group action, ranging from the family to the whole community, instead of individual decision and action, and an incompletely differentiated pattern of industry and agriculture, witnessed in several developing countries, would also pose a situation, which decision-making authorities may find difficult to assess with the help of simple, generalized descriptions. When change, internal or external, affects the life of such communities, the four parties and the two change-inducing factors will not supply a good enough light to understanding and action.

Then again, when we speak of power structure in a community, we are apt to oversimplify, to speak as though freedom and responsibility for community decisions are specifically located in a person, or a group of persons, who can be easily identified and separated from the rest of the community. It is further presumed that these persons have dependable means, or effective sanctions, to implement their decisions. Even in developed countries, pluralism and deconcentration of functional authority are more in evidence than people generally recognize. In developing countries, whose number and coverage in area and population, are large, power as well as responsibility are diffused. Even when decisions are formally taken, and declared as orders of government, or as laws of the state, they are only indifferently carried out. This somewhat sloppy management of affairs becomes almost a pattern of life, and farmers have to adjust themselves to the situation, exercising their individual as well as collective pressures on a mass process of collective adjustment.

It must, however, be recognized that when in developing communities, not accustomed to sophisticated modes of governmental operation, especially of democratic administration, the opportunity as well as the responsibility for governmental decisions are experienced by the governing group for the first time, the risks of uninformed action, and of action taken without comprehension or recognition of the full consequences involved are very real. This is so, not only in agriculture, but in all departments of life. "Educate your masters" is an exhortation which has a real and an urgent appeal in such situations. The elected rulers, and their ultimate backers, the enfranchised people, have to be educated not only in political implications of agricultural decisions, but also of agricultural implications of several of their other decisions, such as those in finance, in trade, in tariffs, in civil law and so on.

Two other trends in social evolution, which are visible in socialist as well as in other countries, should also be noted. It would be an oversimplification, and in large part an anachronism, to look upon the state as a mutually bargaining, in fact mutually warring, community of classes and interests. These trends rooted in each person's instincts, experience and interests no doubt exist. But a conscious effort at developing an integrated community, in which the just claims of all persons and groups are sought to be cared for, is being made, in most countries. For communist states, at least in theory, there can be no conflict of classes and interests. But in other countries as well a collective personality, for deriving benefits as well as for bearing responsibility, is developing. Every political, social or economic analysis, which relies largely on a frame of inter-

sectional confrontation will prove of insufficient positive use in guiding either academic or physical progress.

We must also recognize that relations among groups are not traceable only to the urge and exercise of power. The rulers and the ruled, the natural haves and have-nots — this juxtaposition will not adequately or realistically describe the innumerable and intimate relationships which exist in modern communities. The vogue of planning — not only economic but overall social planning — which is now almost world-wide would be meaningless, and devoid of all social justification, if the planners were presumed to operate on a sectional basis, deriving their mandate from possession of governing power, rather than from general acceptance of their objectives and methods. Here also, some noticeable departure from the nexus of conflict and power appears to be called for.

One more aspect of the pattern of political or governmental action, in relation to agriculture, may be mentioned. The process by which governmental action affects agriculture is often redistributive — as between agriculture and non-agriculture. At the end of such a process what one sector gains, the other has lost. This no doubt happens even now to some extent. But a large and expanding part of governmental activity is now directly promotional and productive. It is possible that allotment of resources spent on such acts, of particular as well as of general application, can be represented as of a redistributive character. But it would be too much of an "ideal" or "schematic" effort of the imagination, to be meaningful, especially to an average citizen or politician.

One last word may be said about an aspect of this analysis of the political impact of agriculture, which is of growing importance to developing countries. Corresponding to national politics is international politics. Agriculture is at present more of an international concern than almost any other non-belligerent interest. Agricultural conditions in, and agricultural plans of, developing countries have to run the gauntlet of governmental policies both internally and internationally. Not only because of the more potent non-agricultural interests, but also because of certain ideological preferences for industrialization, agriculture, even in predominantly agricultural economies, has often to take a second place in the priorities of planning. Recently, a certain amount of wisdom is beginning to dawn on planners in this respect.

But in the best of plans, the dependence of agricultural plans of one country, on the policy of governments of certain other countries, cannot be easily avoided. Considering the direct and indirect influence, which foreign aid resources have on agricultural policies of developing countries, it is somewhat disquieting to note that the decisions of the developed countries in these matters often tend to be influenced by objectives which do not take sufficient account of the efforts of their acts, of commission and omission, on the permanent interests of the agricultural economies of developing countries. This aspect of the impact of politics on agriculture, the international aspect, might justifiably merit further consideration by members of such a truly international body such as this Conference.