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POVERTY AND CAPITAL DEVELOPMENT IN INDIA

CONTEMPORARY INVESTMENT PATTERNS

PROBLEMS AND PLANNING



D. K. RANGNEKAR



*Issued under the auspices of the
Royal Institute of International Affairs*

OXFORD UNIVERSITY PRESS

LONDON NEW YORK BOMBAY

1958

Oxford University Press, Amen House, London E.C.4

GLASGOW NEW YORK TORONTO MELBOURNE WELLINGTON

BOMBAY CALCUTTA MADRAS KARACHI KUALA LUMPUR

CAPE TOWN IBADAN NAIROBI ACCRA

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PRINTED IN GREAT BRITAIN

POVERTY AND
CAPITAL DEVELOPMENT
IN INDIA

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PREFACE

THIS study embodies an attempt to survey the course of capital development in India in recent years. It has as its main object the portrayal of the contemporary patterns of investment in relation to some of India's major problems of development. The investigation is accordingly conducted on broad lines, against the background of India's economic and social framework.

Capital formation is one of the most, perhaps the most, important element in the process of economic development. But the various aspects of India's social and economic life are so complex, and so closely interrelated, that it seems essential for the country's capital development to be placed in relationship with the country's economic development or modernization as a whole—the social and individual process of evolving change, not only in the traditional methods, occupations, and forms of economic activity, but also in the traditional Indian attitudes, social structure, and institutions. This is a theme that recurs over again and again in this study, and has, in fact, guided the broad approach. It is not, however, desired to give the misleading impression that this study has covered in detail all aspects of the Indian economy, or examined all the vast problems of the country's economic development. Within the scope of this study it has been impossible to do more than sketch the general nature of some of the important problems of Indian development, though their very complexities and interdependence have perhaps prompted a more careful examination of their nature and implications than might otherwise have appeared necessary.

This study, which is mainly based on a doctoral thesis accepted by London University, is only a preliminary attempt to indicate, so far as possible, the direction of capital investment and the magnitudes involved in relation to some of the more outstanding facts of India's social and economic life, and to present a perspective for a broad appraisal of the country's efforts at modernization. This approach added to the difficulties of the task in many respects, but mainly in respect of collection of material. This attempt differs from works on capital formation in Western countries perhaps more because of its technique of collecting data than because of its treatment of the subject matter.

This was inevitable because the data available at the present stage are inadequate, scattered, unreliable or insufficiently detailed. Only a beginning has been made with national income inquiries. The National Income Committee, which issued its first report in 1951 and its final report in February 1954, refrained from presenting any estimates of saving and capital formation. It made use of symbols to denote these categories in the construction of the national accounts in its first report, and dropped the table on national accounts altogether in its final report.

To emphasize the tentative character of the statistical magnitudes presented in this study, it has been decided not to assign any seemingly precise and superficially impressive margins of error within which the calculations may be accepted. Furthermore, the lag of two or three years (or more) in the publication of official statistics has made it impossible to carry over detailed statistical survey beyond 1951-2. For more recent years, which span the First Five Year Plan, a tentative appraisal of investment trends has been attempted in a separate chapter. Relevant details regarding concepts and sources of data are given in a supplementary note.

It may be mentioned that, since the completion of this work, official estimates of fixed capital formation have appeared in the Indian press. These purport to emanate from the Government's statistical department (and surprisingly not from the National Income Unit). No detailed breakdowns or explanations are available, but out of curiosity the official estimates are compared with our results in a separate note.

I am deeply indebted to Professor Frank Paish and Dr. Vera Anstey for their patient encouragement, constructive criticism, and advice throughout the work. Without the generous financial assistance I received from the J. N. Tata Endowment under their Economics Research Award in 1952-3, my prolonged stay in this country and this study would have been virtually impossible. I have had almost equally liberal treatment from the Royal Institute of International Affairs, which encouraged me to prepare this manuscript for publication. I should like to record my grateful acknowledgement to these two institutions. I should also like to express my appreciation of the courtesy and kindness shown me by Mr. J. Grahame-Parker (City Editor, the *Financial Times*) and Mr. L. P. Thompson-McCausland (Adviser to the Governor, the Bank of England). I have received help from various other individuals and business organizations, and this was particularly useful in filling gaps in published material. It seems fair to point out that they are in no way responsible for the views, or errors of

fact or opinion. The responsibility is solely mine. In the very nature of the task, the staff of the libraries where I worked have had to bear a heavy burden, and Miss Thorne, Librarian at India House, deserves special mention.

Finally, I may mention that I have had little precedent to draw on for my purposes. I have been driven to this subject partly by irrepressible curiosity, and partly by an urge to analyse contemporary developments in the context of the need for some palpable change in the lives of India's teeming millions. Some of my observations may seem highly critical at first sight, but that is perhaps a broad measure of the complexities of the task ahead. No criticisms of policies, patterns, or even of the approach to so difficult a task, can dilute the hopes that lie with the social and economic progress of this great bastion of democracy.

D.K.R.

London, 1957

ABBREVIATIONS¹

Indian Government publications marked *

<i>East. Economist</i>	<i>Eastern Economist.</i>
<i>First Five Year Plan</i>	*Planning Commission, <i>The First Five Year Plan</i> . New Delhi, 1952.
<i>FAO, Monthly Bulletin</i>	U.N. Food and Agriculture Organization, <i>Monthly Bulletin of Agricultural Economics and Statistics</i> .
<i>GMF Report</i>	*Ministry of Food and Agriculture, <i>Report of the Grow More Food Enquiry Committee</i> . New Delhi, 1952.
<i>Kharegat Memorandum</i>	Committee of Imperial (later Indian) Council of Agricultural Research, (Kharegat Committee), <i>Memorandum on the Development of Agriculture and Animal Husbandry in India</i> . New Delhi, 1944.
<i>NSS, 1st, 2nd and 3rd rounds</i>	*Ministry of Finance, <i>The National Sample Survey</i> . 1. <i>General Report No. 1 on the First Round, Oct. 1950-Mar. 1951</i> ; 2. <i>No. 2: Tables with Notes on the Second Round, Apr.-June 1951</i> ; 3. <i>Tables with Notes on the Third Round, Aug.-Nov. 1951</i> . Calcutta, 1952-4.
<i>O.E.S. India</i>	Great Britain, Commercial Relations and Exports Dept., <i>India, September 1952</i> . London, H.M.S.O., 1953. (Overseas Economic Surveys.)
<i>Second Five Year Plan</i>	*Planning Commission, <i>Second Five Year Plan [Final Report]</i> . New Delhi, 1956.
<i>RBI</i>	Reserve Bank of India.
<i>RBIB</i>	<i>Reserve Bank of India Bulletin</i> (Bombay).

¹ This list does not include commonly used abbreviations of periodicals.

PART A AND PART B STATES¹

PART A STATES

Andhra
Assam
Bihar
Bombay
Madhya Pradesh
Madras
Orissa
Punjab
Uttar Pradesh
West Bengal

PART B STATES

Hyderabad
Jammu and Kashmir
Madhya Bharat
Mysore
Patiala and East
Punjab States Union
Rajasthan
Saurashtra
Travancore and
Cochin

¹ The States Reorganization Act abolishing Part A and Part B States came into force on 1 November 1956.

‘Well, in *our* country,’ said Alice, still panting a little, ‘you’d generally get to somewhere else—if you ran very fast for a long time, as we’ve been doing.’

‘A slow sort of country!’ said the Queen. ‘Now, *here*, you see, it takes **all** the running *you* can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!’

Alice Through the Looking Glass

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CHAPTER I

INDIA'S AGRICULTURAL SYSTEM

No less than 295 million persons or about 83 per cent. of India's population live in villages, and of these some 249 million or 70 per cent. derive their means of subsistence wholly or mainly from land. Thus out of every ten very nearly seven are engaged in farming or dependent on those so engaged. Of the estimated total working force of 143 million in 1950-1, agriculture and animal husbandry accounted for about 103 million or about 72 per cent. Even including traditional crafts, industry and mining employed only about 10 per cent.; tertiary occupations provided work for the remaining 18 per cent.¹ This preponderance of agriculture bears a striking contrast with many of the more prosperous countries, which have relatively a small proportion of their active population in agriculture.²

The share contributed by agriculture and animal husbandry to the national income was estimated at 50.2 per cent. in 1950-1 as against 5.4 per cent. in the United Kingdom, 8.0 per cent. in the United States, and 28.4 per cent. in Japan. This also brings out, perhaps less strikingly, the relative predominance of agriculture in India's economic life—a feature which has been noted since the classical days of Greece and Rome, and which seems to have undergone little change under the impact of the recent industrial advance.

Prior to the First World War, nearly 58 per cent. of India's export trade was accounted for by agricultural commodities. But with the separation of Burma and Pakistan and the growth of domestic industry, the composition of the country's foreign trade is undergoing a change. Even so, agricultural products would seem to average approximately 35 per cent. of total exports, excluding subsidiary farm output such as

¹ Min. of Finance, Dept. of Econ. Affairs, *Final Report of the National Income Committee* (1954), Table 5, p. 23.

² The U.S.A. had 14.3 per cent., the U.K. 5.4 per cent., Argentina 25.9 per cent., and Japan 54.3 per cent. These estimates were approximate and definitions of active labour force varied, but they did seem to illustrate the striking contrast with India (U.N. Statistical Series E, No. 3, 1951).

vegetables and fruit, the exports of which seem to be steadily increasing.¹ But a noteworthy feature is that the country produces most, though not all, of the food (cereals and pulses)² it consumes and meets a large part of the raw material requirements of its principal manufacturing industries, cotton and jute textiles. It is, therefore, no exaggeration to state that agriculture is basic and vital to the Indian economy. The country's character, for all the veneer of westernization that exists in Bombay and Calcutta, is essentially Asian and agrarian.

PERSPECTIVE OF POVERTY

Statistical comparisons of living standards are not easy and, in any case, do not lend themselves really well to explaining the material deficiencies in Indian life. But it gives some idea of the depth of poverty by Western standards to say that real income per head in India is probably no more than about one-eighth of that in the United Kingdom. The estimated national income per head was only Rs. 265 (less than £20) in 1950-1. The National Sample Survey (NSS) recently revealed that only 9½ per cent. of households in rural areas spent above Rs. 200 (£15) a month; more than half of all rural households had less than Rs. 100 (£7½), one-fifth had only up to Rs. 50 (7s.). In the major cities of Bombay, Calcutta, Delhi, and Madras the average consumer expenditure per household is only Rs. 55 (approx. £4) a month. In India's wealthiest city, Bombay, only about 8 per cent. of the people spend over Rs. 300 a month, nearly 50 per cent. having only about Rs. 100.³

In actual life these figures reflect material standards lower than can be visualized in emergency conditions in the West. It is estimated that nearly 30 per cent. of the population is normally undernourished and, even when the diet is quantitatively adequate, it is almost invariably ill-balanced.⁴ In a good crop year, such as 1953-4, the average Indian may get about 2,000 calories a day, about two-thirds as many as an average Briton, and about 12 per cent. less than the estimated minimum necessary in Indian conditions; in a bad year, such as 1950-1, he may have to be content with only about 1,500 calories or even less, and traditionally there is at least one bad crop year in four. The normal diet, besides

¹ Based on Office of Chief Controller of Exports, *Statistical Handbook of India's Export Trade*, pt. i (1951).

² After the post-war period of serious deficiencies, in the past two years there has been considerable improvement in food production, and dependence on imports of food grains has been greatly reduced.

³ NSS, 2nd round, p. 7.

⁴ Famine Inquiry (Woodhead) Commission, *Final Report* (1945), pp. 106-7.

being quantitatively inadequate, is painfully short of essential protective foods.¹ Cereals and potatoes supply most of the calorie intake; protective foods, including milk and eggs, provide little more than about 10 per cent. Average consumption of meat, fish and eggs is less than one-eighth of what it should be, of milk one-half, of vegetable protein one-fifth, of fruit one-third.²

Poverty also means, for most of the population, inadequate clothing, impossibly bad housing, and a veritable lack of nearly all the amenities and services which in modern life in the West are taken for granted. Food absorbs more than half the average Indian's total expenditure.³ So there is little left for other purposes. He can, for example, scarcely afford 12-15 yards of cloth per annum. Only 60 million Indians can read and write. Even in urban areas less than half of the inhabitants are literate. In 1950-1 only 41 per cent. of the children of school-going age were at school—there were only 209,671 primary schools and 20,844 secondary schools for a population of over 356 million!

The inadequacy of medical facilities is grotesque: in the whole country there were in 1950-1 only 106,478 hospital beds; hardly one qualified physician was available for each 30,000 of village population.⁴ The average expectation of life at birth is probably no more than 32 years as compared with 66 in the United Kingdom. The death rate has fallen over the years, but it is still very high—unofficially estimated at 30 per thousand (officially recorded at 22 per thousand). Even on the basis of incomplete official records, it appears that more than 10 million Indians die every year: nearly one-fourth of the babies die during their first year, and 100 out of every thousand girl-wives are doomed to die in child-birth. Official returns list a considerable number of deaths under 'fever'—for the simple reason that the precise cause is unknown owing to the sheer inadequacy of medical attention.⁵ In actual life today, tradition of a great, cultured civilization is perhaps the only major factor that separates Indians from the peoples of other so-called 'under-developed' countries.

¹ S. M. Roy, 'Food Consumption in India', *Agric. Situation in India*, May 1952.

² The intake of animal protein is partly affected by religious taboos.

³ The relevant proportions are 66 per cent. in villages, 53 per cent. in towns, and 46 per cent. in big cities (NSS, 3rd round, p. 28).

⁴ Literacy figures: Census of India, 1951, Paper no. 5, 1954; school statistics: Min. of Ed., *Education in India, 1950-1* (1954); medical data: *First Five Year Plan*, p. 76 and NSS, 3rd round.

⁵ S. Chandrasekhar, *Hungry People and Empty Lands* (London, Allen & Unwin, 1954), pp. 157-8 and 160.

Not only are the people too poor to afford education, medical aid, and reasonably decent living conditions, but the state also, for the same reason, cannot do much. The incomes of the great majority leave little surplus to tax. Less than 1 (0.2) per cent. of the population have incomes above the income-tax minimum, and nearly two-thirds of the tax comes from some 5,000 assesseees, many of them big businesses. Taxes are high, but total taxation amounts to no more than 8 per cent. of the national income.¹ In 1954-5 the total revenue of the Centre (i.e. Central Government) and states together was less than Rs. 10,000 million (£750 million), not even half of Britain's defence expenditure.²

India's basic problem, therefore, is the widespread poverty and sub-human standards of living of the masses. The essence of the problem is that, while over 72 per cent. of the inhabitants live off the land, practising more or less static peasant agriculture, the population rises every year by over 4½ million. Indian industry, just finding its roots, cannot absorb these millions. As things are, the feeding of the urban population is no easy matter. Moreover, the poverty-stricken villages provide only a poor and limited market for industry. Obviously, therefore, the first task is to tackle the agricultural problem: to step up agricultural production, to plant some dynamism in the rural economy and so to balance the surge of population. For so long has this problem remained unsolved that millions in India seem to have accepted undernourishment and misery as an inevitable part of life.

THE PRESENT AGRICULTURAL PROBLEM

In recent years India's food problem has become very grave, and there have been two major famines within less than ten years. The Bengal famine of 1943 took a toll of some 5 million lives; the famine of 1950 was widespread, but how many victims died is unknown. The dislocation caused by the war and the famine probably brought to the surface a position which was already getting precarious. Dr. Mukerjee, for instance, made the point that India's food production in relation to population had been steadily diminishing since as early as 1930-1.³ Within two decades, between 1931 and 1951, the population had increased by nearly 82 million, and cultivated land per head had declined by nearly one-quarter, from 1.04 acres in 1931 to 0.84 acres in 1951.⁴

¹ Central Board of Revenue, *All-India Income-tax Report and Returns for the year 1951-52* (New Delhi, 1954), statement no. 5.

² Based on RBI, *Report on Currency and Finance for 1954-55*.

³ R. Mukerjee, *The Food Supply* (London, OUP, 1944), pp. 10-11.

⁴ Census of India, 1951, vol. 1, pt. 1A: *Report*, p. 141.