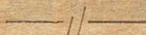


A PLAN FOR RAISING THE ECONOMIC
WELFARE OF THE COMMON MAN
IN INDIA

BY

DR. P. J. THOMAS, M.A., D.Phil. (Oxon.),
*Director of Economic Research Finance Department,
Government of India.*

A PLAN FOR RAISING THE ECONOMIC WELFARE OF THE COMMON MAN IN INDIA



THE OBJECTIVE

It is proposed to carry out the economic development of India by launching a long-term plan. The principal objective of any such plan must be to increase the economic welfare of the people as a whole. How is economic welfare measured? Indeed it is usual to measure economic progress in terms of *per capita* income, but figures of income per head can be misleading, especially in the case of a large country like India with wide variations in wealth and income, between classes and between regions. Even in more homogeneous countries like Great Britain, while the total national income increased many times, the working classes remained poor. That the position in India is much worse is clear from what has happened in the past. Accumulations of wealth have been confined to certain small sections of the community who obtain large incomes from their easy labours, whilst the toiling masses have remained miserably poor. Our income-tax statistics bear ample testimony to this: in a country with 400 million people, only 300,000 persons (in 1940) had (non-agricultural) incomes above Rs. 2,000 per annum. Under such conditions a doubling of the national income can happen without any tangible addition to the income of vast numbers who are outside the orbit of big business.

A more reasonable criterion is the standard of living. In other words, how much of food, clothing, shelter, and social amenities do people actually obtain? What really matters is not the total or even *per capita* supplies of food, clothing, etc.; we must know how much is going to, or within the reach of, the common man, and whether he or she is able to live in reasonable comfort. That is not merely humanitarian sentiment. A country where more than 50 per cent. of the population have not even the bare requirements of food and clothing cannot be a growing market for the products of its industry. Nor can such people be good neighbours, because malnutrition will cause ill-health, and ill-health cannot be segregated within a class or locality.

LOW LIVING STANDARDS

Without going into elaborate statistical analysis, it is possible for the most cursory onlooker to see that the living standards of the common people in India are low, in some places miserably low. Nor is this true of villages only; there is appalling poverty even in big industrial centres like Bombay. The dingy hovels which house large numbers of ill-clad, unkempt and semi-starved people cannot escape the notice of any one. Poor living conditions necessarily are a serious drag on productivity. Nor can a people living under them have high moral or cultural standards. Poverty begets not only physical misery but moral degradation.

The raising of living standards must be the central objective of any plan. But how is this to be carried

out? Some think that public health and popular education must be taken up first. But the large public funds needed for these are not now available; nor can such ventures be financed by loans. Further, for availing themselves of such services the masses must have fuller stomachs and higher purchasing power. It is true that in the absence of refined tastes, enhanced incomes may be (have been) used for hoarding gold and silver, or, worse still, for drink, and drugs. Similarly, good health is itself an essential condition for efficient labour. But at the present low levels of incomes in India, rapid advances in health and education are not feasible, and therefore, without neglecting these pivotal social services even at the start, we have to concentrate on the increase of production and income, so that at the later stages of the plan, there may be ample resources for providing full social security for all on the lines now being attempted in the United Kingdom.

INCOMES AND POPULATION

First, then, comes income. That the incomes of working classes, including the numerous cultivators, are exceedingly low, has been proved by economic surveys all over the country. The average annual income of the agricultural population was hardly Rs. 50 before the war. Perhaps this is an underestimate; but, even if it were 50 per cent. higher, it must be considered inadequate for a reasonable living standard. Why are incomes so low? In the case of wage-earners it may be true that the smallness of the

income is due to the low wages inevitable in a country, where the "Iron Law" of Ricardo holds good, many labourers having to compete amongst themselves for the scanty employment available. But this cannot be said of the cultivators who work their own holdings. Their incomes are also extremely low. No doubt, this is partly due to their uneconomical holdings. But, by employing a different technique of production, or mode of organization, large additions to production can be made and thus incomes increased, as has been done elsewhere.

Some may interpose here the familiar problem of over-population: when incomes increase there will be also more mouths to feed. But the more pertinent question to ask is "Has not India adequate resources to maintain in reasonable comfort the present and even a larger population?" Cannot the teeming millions of India be made a valuable asset if the large labour force is properly utilized? When Malthus raised the bogey of over-population in England, conditions there were nearly the same as in India now, but economic development soon overtook population increase, and with the rise of living standards the rate of population increases slowed down. The same can be the trend of India also, and what is needed is to raise the living standards by making full use of the large natural resources available. A great deal of labour is now wasted, and this is the root cause of the trouble. When labour is fully employed national income will increase, living standards can be raised and the threat of over-population will vanish. Full employment is

therefore the remedy, and the emphasis on it at the San Francisco Conference is indicative of a welcome change in outlook.

FULL EMPLOYMENT

The term "full employment" has to be used with caution, because in the economist's jargon, it means the ironing out of cyclical fluctuations in employment. Unemployment in the industrialized Western countries is largely of a cyclical character. In India, too, such phenomena have appeared in recent times, and we had a bitter taste of it ten years ago. But our major problem is perennial unemployment or under-employment resulting from the fact that especially in most rural tracts there is no work for nearly half the year. This is particularly true of areas like Bengal, where, according to a recent estimate, nearly a third of the rural population have no employment even normally. It means that large numbers of adults are living on the labour of others. According to one estimate, there are 40 million people unemployed in India. This may be an over-estimate if it takes note only of the fully unemployed; it can only be an under-estimate if the inadequately employed also are included. Whatever it be, it is certain that a large part of the human and material resources of India are unemployed, and this must be the fundamental cause of the scanty production and meagre incomes. The remedy for this is more fully to employ the idle labour so that there may be more goods in the country, and to see that large shares of the goods come into the hands of the

working classes. Fuller employment is the only way to higher national income, which is the first step in raising living standards.

How can employment be increased? The method usually suggested is to transfer the superfluous rural workers to industry and thus bring about a more-balanced economy. By rapid industrialization the Bombay Plan envisages a doubling of the national income in fifteen years. From the enhanced national income ample funds will be drawn for providing the whole country with the essential social services—education, public health, water supply, roads, housing, etc.

In the present circumstances of India a quickening of industrialization is indeed essential, not only as a means of strengthening the military defence of the country, but also for producing our essential requirements of ordinary finished goods for which external dependence is not advisable, for increasing our internal demand for our primary products, and not least for a rapid accumulation of taxable income, by which alone the much-desired expansion of social services in the country could be financed. In fact even for the improvement of Indian agriculture, a more rapid industrial development has become essential in many ways, and therefore there is no essential rivalry between the interests of agriculture and of industry.

But to expect that industrialization will cure unemployment is futile. An essential characteristic of modern power-driven industry is the meagre demand for labour which it creates. Mass production needs

much capital but little human labour. This is particularly true of industries involving complicated technical processes and requiring elaborate machinery. All our basic industries together may not require more than 100,000 labourers for some time to come. India needs a large quantity of fertilizers for its extensive agricultural acreage but the amount now required can be produced by employing about 2,000 workers. We may need only about 3 or 4 million workers to produce nearly all our present requirements of capital and consumption goods, and even this number will be much too superfluous if our production per man-hour attains anything like the American or even the Japanese level.

INDUSTRIALIZATION AND UNEMPLOYMENT

So far, industrialization in India has only aggravated unemployment. Of the 15 million workers engaged in industry (1931 census) 13 millions pursue handicrafts. The advance of power-driven industry has robbed these handicrafts of their markets and of their employment. One example would suffice. Even before the war the mills had come to supply more than 60 per cent. of the cotton textiles required in the country, leaving to the handlooms only about 25 per cent. of the market (the remainder being supplied by imports). While the mills thus came to employ about 400,000 persons, unemployment has been the result to the 6 million persons engaged in the hand-weaving industry and utter misery to the 4 million women and children dependent on them. This, let us remember, happened

in spite of the active support of handicrafts by the most powerful political party in the country.

The Bombay Plan proposes to encourage small-scale industries also; if by "small scale" is meant handicrafts, considerable employment can be maintained, but wages cannot be adequate and sweating will be the result. The plight of hand spinners is well known. It is generally recognized that the use of hydro-electric power is desirable for enabling the worker to turn out a reasonable output. If this is done, and one cannot see how this can be prevented, the numbers now engaged in handicrafts would become altogether superfluous and there will be considerable unemployment. The substitution of power looms for hand looms has enabled the cottage worker to produce five times the output; but it has also caused widespread unemployment among hand weavers (e.g., the Bombay Province). The wide use of cheap electrical power will produce the same results all over the country and unemployment will become widespread. If at least the comparatively few workers now engaged in handicrafts cannot be maintained in industrial occupations, how can industry be expected to draw surplus labour from rural areas?

In spite of this, the Bombay Plan raises the hope that within fifteen years the proportion of people engaged in industrial occupations can be raised to 26 per cent. (i.e., more than doubled). I see no ground for sharing this optimism. Japan, which has been producing heavily for export, largely using small-scale methods too, could provide employment for only 15.5

per cent. of its workers in industry (including building). A highly industrialized country like the U.S.A. has only 27 per cent. of its workers engaged in industry. And India, where industry has to face serious obstacles, where hardly 2 per cent. of the total workers have so far found employment in organized industries, is expected to give industrial employment to 26 per cent. of its workers within a few years! This looks a little too ambitious, at any rate on the plan proposed.

If the chances of increasing employment in industry are so meagre, one wonders how the living standards envisaged in the Bombay Plan could be realized. It is true that several countries in Europe—not only the United Kingdom, but Sweden, Switzerland, Belgium, Denmark—have industrialized themselves on the basis of export markets and have thereby been able to obtain essential imports on favourable terms, thus raising their living standards. India, with her low technical skill and her serious deficiencies in regard to key raw materials and capital supplies, may not be able to pursue such a policy. In war-time India has had all its internal market and some external markets too, but when the high industrial potential developed in the West during war-time is switched on to peace-time production, imports may become available at such low prices that even our internal markets may become available at such low prices that even our internal markets may become difficult to maintain without raising sky-high thriff walls.

The expectation of some well-meaning persons is that by having a few big industries, national income

can be so raised as to provide large public funds for being spent on the social services needed for raising living standards. But they forget that without fuller employment and wide-spread purchasing power among the masses the industrialization they desire is not practicable in the conditions of India. A few industries may be started, some business men will make large profits, and a few more labourers may be employed. But the full employment and higher living standards envisaged in the plan will not materialize and wide-spread social discontent may be the result. The fact is that, in the peculiar conditions of India, industrialization cannot be successfully carried out by itself, but only as part of a comprehensive plan of economic development. In such a plan the improvement of the agriculturists' purchasing power and the provision of essential public utilities are integral parts.

AGRICULTURE AND EMPLOYMENT

The raising of the living standards of agriculturists is of the utmost importance, because, as more than 70 per cent. of the population is connected with agriculture, only by raising their purchasing power can the extension of the internal market desired by Indian (as also Western) industrialists be carried out. The great majority of agriculturists are small cultivators or landless labourers. The lowness of agricultural incomes is not due merely to uneconomic holdings and unscientific methods, but also to the large slices of the produce going to the land-holder and the money-lender under the prevailing systems of tenure and

credit. For raising the agriculturists' incomes, therefore, a great deal of radical reform has to be carried out, reform which will affect vested interests of land-owners, money-lenders and a long chain of middlemen. This can only be carried out by a strong Government in whom the people have full confidence. It also calls for a long-period policy, if non-revolutionary methods are preferred. A plan for agricultural improvement has lately been devised by Government, and one hopes that it will be launched at an early date.

But the most successful efforts at agricultural improvement will not enable all the present rural workers to obtain full employment in agriculture. In fact, under a more scientific system of agriculture a smaller number of workers will be able to raise a much larger production than now, and therefore rural unemployment may only be aggravated by agricultural improvement. No modern economy can maintain as many as 72 per cent. of the workers in agriculture. In Soviet Russia, with much larger supplies of fertile virgin land to draw upon, agricultural employment has been maintained at a high level, but even there it has lately fallen.

There are, however, two avenues for increased employment in agricultural areas. For occupying agriculturists in their idle months and days and for supplementing their meagre incomes, subsidiary employment can be provided by a carefully planned system of small-scale industries, especially handicrafts, worked on a co-operative basis. Another large source of employment is in irrigation works, big and small,

which will be required all over the country if farming is to become less dependent on rainfall. No doubt some of the rivers have been dammed and their water is now available for agricultural use. But even now much the greater part of the rain water is wasted; by impounding such water in suitable reservoirs more lands can be brought under cultivation and more crops can be grown on existing land. The construction of such irrigation works would give large employment not only at the initial stages but subsequently for repairs and maintenance also. Irrigation is of basic importance, and it deserves a high priority in the plan.

All this may give employment to some more of the rural labourers; but, even so, more than 50 per cent. of the total number of workers may not find gainful occupation in agriculture. As shown above, the chances of industry absorbing any large numbers are not great. Where, then, should they turn for full employment?

TERTIARY OCCUPATIONS

The answer to this has to be found in trade, transport, services and other tertiary occupations. This is the experience of the thickly populated countries of the West, where large proportions of the workers are employed in tertiary occupations. The proportion is as high as 50 per cent. in the United Kingdom and 47 per cent. in the U.S.A. (In advanced parts of the U.S.A.—e.g., California—the proportion is above 60 per cent.) It is also significant that while the proportions of workers engaged in agriculture and even industry have been steadily falling, the propor-

tion of those engaged in trade, transport and services has been increasing. Thus in Japan only 10 per cent. of the workers in 1872 were engaged in tertiary occupations, but by 1930 the proportion rose to 30 per cent. India's proportion of workers (1931) in tertiary occupations—i.e., 13 per cent.—is rather exaggerated owing to the inclusion of 2 million persons engaged in unproductive occupations and numerous married women who are wrongly returned as engaged in domestic service. The Bombay Plan proposes to raise the proportion to only 16 per cent. after fifteen years. There is, it appears to me, a serious lack of perspective in this. It is not possible to relieve rural unemployment in India without greatly increasing the number of workers engaged in trade, transport and the various services. Nor is this impracticable; in fact, in the conditions of India it is much easier to increase employment in trade and transport than in industry. As for services, no rise in living standards is possible without greatly increasing the number of persons providing the numerous services required for refined living. Strange as it may appear, while the Bombay Plan aims at raising the living standards of the masses, and makes provision for health agencies, schools, and various public amenities, it does not envisage any substantial increase in the number of persons supplying these services. How, then, does the Bombay Plan propose to raise living standards?

It is true that as the more refined social needs can be met only after a sufficient rise in incomes, the employment in services will only rise slowly, but this

is not true in regard to transport and trade, and the creation of the various public utilities required for industrial development as well as for improved living. The first step in the economic development of any country is to provide an efficient system of communications—roads, railways, airways—and to supply the various public utilities—electric power, water supply, housing—which are essential for industrial and agricultural improvement. These also provide large openings for employment, first in constructing them and later in their maintenance and upkeep. With the expansion of roads and railways the movement of goods and persons will increase, and the vehicles and other appurtenances required will give vast employment. In recent years a striking increase has taken place in the number of transport workers, but we have no accurate figures, as the occupational data of the 1941 census have not been worked up. With the expansion of transport, trade will increase, especially distributive trade. Markets will then become active, new shopping areas will spring up, banking and financial agencies will arise. A great increase in employment will result from all this, and the effects will be cumulative. Not only unskilled labourers but technicians of all kinds will be required, and intellectual workers for management and clerical work.

ROADS AND HOUSING

The effects on employment of a road-making programme are tremendous, especially if the roads are made in rural areas. Even in U.S.A., where machinery

is used for road-making, it is found that 81 per cent. of the expenditure incurred on roads went to employment—29 per cent. on direct employment on the road and 52. per cent. on labour employed in producing and transporting materials for construction. Of course the position in India must be more favourable for employment, especially of unskilled workers. In this light the 450 crores road programme recently made in India cannot be regarded as extravagant; it may give a great fillip to economic improvement in many directions, especially if village communications are taken up.

An essential basis for the raising of living standards is the supply of clean and adequate house room. Thus an extensive programme of slum clearance and building construction can simultaneously secure two important objectives—namely, improvement of public health and higher living standards. It can also produce another important result—fuller employment. Building construction provides the largest employment in most civilized countries; it also leads to much secondary and tertiary employment, as it involves a great demand for goods like iron and steel, timber, bricks, pottery, water fittings, electrical goods, etc.

Any plan of economic development in India must therefore give an important place to irrigation works, roads, buildings and other structures, and public utilities generally. It is no wonder that in highly developed countries like the U.S.A. these items account for not less than a third of the total productive capital invested. Only by pursuing the same policy can India

carry out a stable economic development. There is no better road to full employment and higher living standards.

A BALANCED OCCUPATIONAL STRUCTURE

If a plan of this kind can be pushed through, the present unbalanced occupational structure of India can be modified to suit a modernized economy, and the pathetic dependence on agriculture can be toned down by employing larger numbers in tertiary occupations. India's occupational structure at the end of the planning period may be somewhat as follows :

	<i>Pre-War.</i>	<i>After 15 Years.</i>
	<i>(Per Cent.)</i>	<i>(Per Cent.)</i>
Agriculture	72	50
Industry	15	20
Trade, transport, services,	13	30
	-----	-----
	100	100

The advance in industry looks small, because the present proportion of workers is rather exaggerated by the inclusion of the numerous under-employed craftsmen, but with a change in the technique, production can treble or even quintuple without any great addition to the proportion of workers engaged in industry. If by fuller employment on the plan sketched above living standards rise rapidly, the pace of industrial development can be greatly quickened and the proportion of workers in industry will increase.

A FOUR-PRONGED DRIVE

Our plan must make provision for simultaneous advance in many directions. Without going into detail, a four-pronged drive somewhat on the following lines may be suggested :

- (1) *Basic industries*—especially machine tools, agricultural implements, basic chemicals, hydroelectric works, etc.
- (2) *Industries and activities for raising economic equipment*—irrigation works, roads, railways, waterways, slum clearance, building construction, etc.
- (3) *Agricultural improvement*, especially such activity as would lead to the enhancement of rural purchasing power.
- (4) *Consumption goods industries*, mostly to be pursued on small-scale without the use of elaborate machinery.

The crux of the planning problem is priorities. Our capital resources are limited, and as financial jugglery will not ultimately pay, we have to make careful use of our resources and must carry out our development without impinging too much on current consumption. The prime consideration must be the addition to employment and purchasing power, because only by fully employing more and more of the population could living standards be raised and thus only could stable foundations for any rapid industrial advance be laid.

In this light the allotment of funds proposed in the Bombay Plan calls for considerable modification. For instance, in the first-year period 35 per cent. of the total amount (i.e., Rs. 480 crores) is to be spent on basic industries. But very little of it would go into the hands of the working classes. On the other hand, the provision made for items mentioned under (2) above is meagre. It is too small having regard to their great importance in adding to economic equipment and providing essential employment, especially during a period in which depression and unemployment are likely to arise. The success of the plan depends on wise investment, both in the public sector and in the private. There will be demands for investment in many directions, but our resources being limited the available supply will have to be distributed among the alternative channels, keeping in view the central objective of expanding mass purchasing power and rising living standards.

What has been said above applies not only to long-priced plan but to the tackling of the economic maladjustments that may arise immediately after the war, when the large expenditure now incurred for war purposes will be more than halved rather abruptly. If at that juncture adequate private outlay will come forth to replace war expenditure, there may not be much trouble. As this is not likely, the State will have to carry out schemes of investment on essential public works which have been held up during war-time, selecting in particular such works as will give the maximum employment and add to essential economic

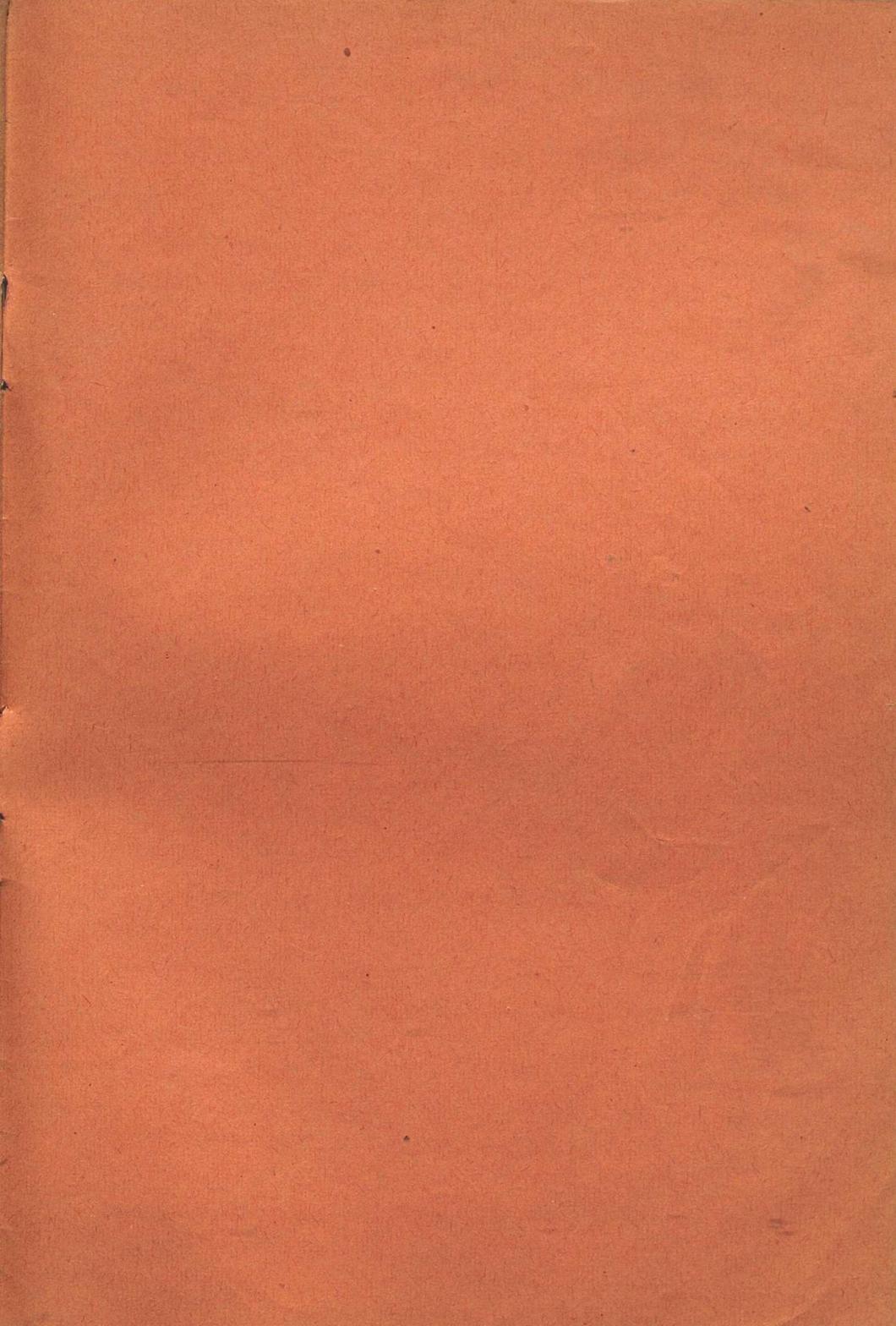
equipment. This is a most urgent problem, and it is hoped that this will be properly attended to. The maintenance of rural purchasing power by preventing a post-war slump in the prices of primary products is another matter calling for urgent action. Only if the transition from war to peace is carefully carried out could the long-term plan be safely initiated at an early date.

CONCLUSION

I shall now recapitulate. The raising of living standards should be the central objective of any long-period plan, and this can only be secured by fuller employment of the labour and natural resources now lying idle. While industrial development and agricultural improvement are both essential, neither of them will give adequate employment to India's unemployed millions. No doubt small-scale methods will give some extra employment, and this seems reasonable if pursued without unduly impairing efficiency, but the only proper solution is the diversion of a much larger number of labourers to transport, trade and services which in advanced countries form the sheet anchor of full employment. With this aim in view a comprehensive plan of national development must be launched, with special emphasis on public utilities. This will provide vast employment, and will also pave the way for a rise in living standards. Then can industrialization step forward and absorb large numbers of labourers. Not only will this increase the economic welfare of India's teeming millions, but external trade

will greatly expand and India will be able to take her proper place in world economy.

DR. P. J. THOMAS, M.A., D.Phil. (Oxon),
Director of Economic Research
Finance Department,
Government of India.



A PLAN FOR RAISING THE ECONOMIC
WELFARE OF THE COMMON MAN
IN INDIA

BY

DR. P. J. THOMAS, M.A., D.Phil. (Oxon.),
*Director of Economic Research Finance Department,
Government of India.*