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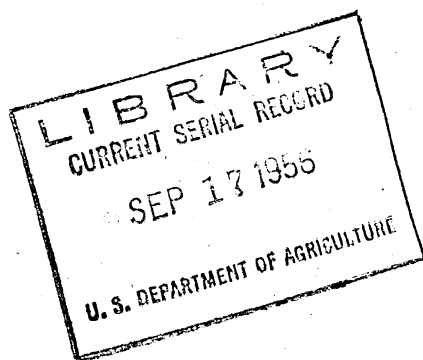
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CONFERENCE NUMBER

PROCEEDINGS

of the

SIXTEENTH CONFERENCE

held at Poona, December 1955

SUBJECTS

1. REORGANISATION OF RURAL CREDIT IN INDIA.
2. INTEGRATED PRICE POLICY FOR AGRICULTURE.
3. POLICY FOR DEVELOPMENT OF THE RURAL SECTOR IN THE SECOND FIVE-YEAR PLAN.
4. TECHNIQUES OF FIELD SURVEYS IN AGRICULTURAL ECONOMICS.

Rs. 6-8-0

INAUGURAL ADDRESS

by

SHRI B. RAMA RAO

Governor

Reserve Bank of India, Bombay

When I was invited by Prof. Gadgil to inaugurate this year's session of the Agricultural Economics Conference, I gave my acceptance not only with much pleasure on my own account, but also with a sense of the growing participation by the Reserve Bank in the interest which is evoked by the many and important problems of the rural economy of India. The Rural Credit Survey which, I see, figures prominently on your agenda has been the latest, and judging by the action taken on it perhaps the most fruitful, demonstration of the Reserve Bank's active concern for the agricultural sector of our economic life. It seems to me I can make no better use of the opportunity you have afforded me than to devote the larger part of these opening remarks to giving a brief account of the action that has followed the publication, almost exactly a year ago, of the monumental report of the All-India Rural Credit Survey Committee.

It is unnecessary for me to recapitulate the main recommendations of the Committee, especially those relating to rural credit, processing and marketing, since they are doubtless familiar to you. These recommendations were first considered by the Reserve Bank's Standing Advisory Committee on Agricultural Credit in the month of January, 1955 and then by the co-operators of the country assembled in conference at Patna in March, 1955. Both these bodies generally accepted the framework of suggested action embodied in the Report. The recommendations were again discussed by the Ministers for Co-operation in the States who met in conference with the Minister for Food and Agriculture, Government of India, at Delhi in April 1955. This conference of representatives of the Central and State Governments adopted most of the recommendations of the All-India Rural Credit Survey Report and decided that, in the relevant sections, the Second Five-Year Plan of the country should be framed in such a way that membership in the primary agricultural credit societies increased from 5 millions to 15 millions, that the short-term loans advanced in rural credit societies increased from Rs. 30 crores to Rs. 150 crores, the medium-term loans from Rs. 10 crores to Rs. 50 crores and the long-term loans from Rs. 3 crores to Rs. 25 crores during the five-year period ending 1960-61. State Governments drafted their Second Five-Year Plans of Co-operative Development in accordance with this decision. The plans in question were considered by the Planning Commission with the assistance of the officers of the Reserve Bank and the Ministry of Food and Agriculture. The conclusions reached by the Planning Commission were communicated to the State Governments for embodiment in their programmes.

The central feature of these programmes is the partnership of the State in co-operative credit as well as in co-operative marketing and co-operative processing. So far as the co-operative credit institutions are concerned, the States have programmed to subscribe to the share capital of their respective State co-operative banks directly and to the share capital of the central co-operative banks and large-sized co-operative credit societies directly or indirectly. It has been

estimated that in order to facilitate this process by supplementing the financial resources, including borrowings from the public, of individual States, the Reserve Bank of India will have during the next five years to make long-term loans to State Governments, amounting in all to more than Rs. 20 crores; this will come out of the National Agricultural Credit (Long-Term Operations) Fund which has been created by statute as a result of the recommendations of the All-India Rural Credit Survey Report. The plans also provide for participation in the share capital of co-operative marketing and processing societies at the State, District and primary levels for which it is understood that more than Rs. 6 crores in all have been provided by the different State Governments. It is to be hoped that loans for this purpose, to the extent they may be necessary, will be available to State Governments out of the National Co-operative Development Fund the creation of which, in accordance with the recommendations of the Committee, has been accepted in principle and strongly advocated by the State Ministers' Conference at Delhi.

4. It was emphasized in the Report of the Rural Credit Survey Committee that co-operative credit societies, on the one hand, and non-credit societies, on the other, should not function in separate un-coordinated compartments but should work together in the common interests of both. More particularly it was recommended that credit given for production in primary rural credit societies, should be recovered by the sale of the agricultural produce of the borrower through the marketing society. For giving effect to this recommendation, the provision hitherto tentatively made in the draft Second Five-Year Plan amounts, I understand, to Rs. 4.30 crores; this is for the construction of godowns by marketing societies. While these will be situated at marketing centres where the produce will be ultimately disposed of, godowns will also be required by large-sized credit societies for collecting the produce of the village for transport to the marketing centres. The States, it is understood, propose to provide a sum of about Rs. 4 crores for the construction of these village godowns. The programme for constructing godowns will, it is hoped, be financed (to such extent as may be necessary for supplementing the resources of individual States) from the National Warehousing Fund, the creation of which has also been urged by the State Ministers' Conference.

The organisation of co-operative marketing at the village level through the large-sized co-operative credit societies and at the Mandi level through the marketing co-operative societies had, according to the recommendations of the Rural Credit Survey Report, to be carried a degree further by the establishment of warehouses by State Warehousing Companies in important centres of the State and by the construction of larger warehouses at strategic points in the country erected by an All-India Warehousing Corporation. The details of the establishment of the Warehousing Corporations and the State Warehousing Companies as well as of the establishment of an All-India Development Board to co-ordinate the activities of the Warehousing Corporations and the Co-operative Marketing Societies have been under examination by the Government of India and a programme to give effect to the conclusions is, I believe, likely to go before the Parliament without much further delay. In this connection, you are perhaps aware that a conference of some of the Registrars of Co-operative Societies in India was held by the Government of India at Hyderabad about a month ago;

at this conference various practical measures for giving shape to a country-wide scheme of integrated rural credit and rural marketing were thrashed out, and it may well be said the stage is now well and truly set for launching the new scheme of reorganization of rural credit.

The All-India Rural Credit Survey Report drew pointed attention to the fact that the expansion of rural credit in the country would, among other important things, depend upon the provision of adequate staff for the purpose and upon the personnel being sufficiently trained in the principles of co-operation and the techniques of co-operative business. While the States and the Central Government have, I understand, tentatively provided nearly Rs. 13 crores for the strengthening of the staff of the Co-operative Department and the co-operative institutions, the Central Committee for Co-operative Training constituted jointly by the Government of India and the Reserve Bank has, for its part, been extremely active making arrangements for training on a countrywide scale. As you are aware, this Committee has organised an All-India centre at Poona for training the higher personnel of the Co-operative Departments and co-operative institutions in short-term courses lasting over a period of six months. For training the intermediate co-operative personnel, three regional co-operative training institutions are functioning at Poona, Madras and Pusa and two more are expected to be started, in the course of January 1956, at Indore and Meerut. The expenditure on these higher and intermediate courses is being entirely borne by the Reserve Bank. The training of the subordinate personnel has been treated as the responsibility of the States, but the Government of India have provided funds for subsidising the training centres established in the States for this purpose and subsidies are sanctioned on the recommendation of the Central Committee for Co-operative Training who are also responsible for supervising the conduct of these training centres. Twenty-one training institutes have already been established in the States and about 10 more are expected to be started within the next six months.

In addition to these training schemes, a special scheme for training Block Level Officers of the National Extension Service, has also been taken up by the Central Committee for Co-operative Training and two training centres have commenced work at Hyderabad and at Gopalpur-on-Sea in Orissa. One more in Saurashtra will be commencing work in January 1956, while five more are in various stages of establishment.

I will now make a brief reference to the State Bank of India, the establishment of which, as you know, was one of the main recommendations of the Committee of Direction in charge of the Rural Credit Survey. Many of you are probably aware that more than five years ago the Rural Banking Enquiry Committee had recommended that the Imperial Bank, as it then was, should launch a big programme of branch expansion, with a view to extending banking facilities to many parts of the country, including large "rural" areas, which were sorely in need of the credit and remittance facilities which a commercial bank, associated with the Reserve Bank, could alone provide; the Rural Banking Enquiry Committee actually suggested a programme which would eventually comprise as many as 274 new branches. Expansion of this magnitude, especially where the areas

concerned would, to start with, be in many cases unremunerative, soon proved to be beyond the practical competence of what was almost entirely a bank of private shareholders. Today, as a result of the conversion of the Imperial Bank into the State Bank of India, of which the shares are predominantly held by the Reserve Bank, this formidable difficulty in the way of branch expansion has been successfully got over. Unremunerative branches will, to the extent necessary, be financed from the Integration and Development Fund which is constituted within the State Bank itself and to which certain contributions are made from the dividend earned on the shares of the Reserve Bank. I may recall that, as the result of past negotiations, the Imperial Bank had agreed to open 114 branches (falling far short of the 274 I have referred to) during the period from 1st July 1951 to 30th June 1956 ; but even so, out of this, only 63 branches had been opened during the four years ending 30th June 1955. Since the establishment of the State Bank, the pace has been accelerated. Twenty new branches have been opened since 1st July 1955. The programme will of course have to be further speeded up since, as you know, the State Bank is under a statutory obligation to establish 400 new branches during the first five years of its existence. A very considerable contribution to rural credit—through extension of credit to small-scale industries, responsive support to co-operative institutions, e.g., marketing and processing societies, and vastly extended facilities for cheap and ready remittance of money—may be expected to result from this momentous programme. The places where the additional branches will be established are required to be determined by the Central Government, from time to time, in consultation with the Reserve Bank and the State Bank of India. A hundred such centres have already been selected. I have no doubt that every effort will be made to establish these branches and to pursue these policies as expeditiously and effectively as possible, thereby removing one of the most serious hindrances to the development of rural credit and rural banking in India.

I have explained to you the action we have taken or are taking in regard to agricultural credit and extension of rural banking, in the context of the recommendations of the Rural Credit Survey Committee. Bearing in mind the importance of agriculture in our economy, it is but natural that problems relating to it should occupy a great deal of our attention. But the problem of securing adequate finance for small-scale and cottage industries is also, of course, a very important one from the point of view of the country's economy and future development. One thing urgently necessary is a co-ordinated framework of functioning within which the state financial corporations, which have now been set up in the various States, the co-operative banks and, not least, the State Bank of India all play their appropriate part in the provision of credit for rural industries, whether small-scale or medium. At a recent conference of state financial corporations convened at Bombay by the Reserve Bank, it was agreed that the actual problems which would arise and the methods to be followed, in pursuit of such a programme, should be assessed and determined by means of an adequate number of working projects tried out in selected areas. I am glad to say that the State Bank is actively considering the establishment of such projects—in essence, experiments in credit co-ordination for small-scale and medium industries—in different areas of the country, urban, rural and semi-urban.

II

I have dealt with the Report of the Committee on Rural Credit Survey, whose recommendations involve a new and almost revolutionary approach to the problem of rural finance. They were, however, based on a detailed and comprehensive expert enquiry extending over three years into village conditions in a very large number of selected villages throughout the country. Apart from the far-reaching character of the proposals made, the report has supplied invaluable material for the study of agricultural economics. There is, however, one important aspect of rural economy, which did not fall within the scope of the Committee's enquiry and that is, the problem of unemployment and under-employment in rural areas, which has received great prominence in connection with the discussions on the Draft Plan Frame for the Second Five-Year Plan. Among the major objectives of this Plan—to quote the words of the Draft—"is the liquidation of unemployment as quickly as possible and within a period not exceeding ten years." Among the methods by which this objective is to be reached, is the expansion of house-hold and hand industries and curbs on the production of consumer goods in factories "until unemployment is liquidated or brought under control." These proposals also involve a revolutionary approach to the problem of unemployment in the country, but there has not been so far a comprehensive expert enquiry into the extent, nature and distribution of unemployment in rural and urban areas. The report of the Panel of Economists, who examined the Draft Plan Frame does not indicate the material on which these far-reaching proposals are based. The well-equipped Department of Research & Statistics of the Reserve Bank has not been able to give me any adequate statistics of unemployment on the basis of which policy decisions can be made. Such figures as are available seem to indicate that some of the implied assumptions on which the conclusions in the Plan Frame are based are certainly debatable, if not fallacious. For instance, it is suggested that curbs on the production of consumer goods in factories, which are mostly in urban areas, should be imposed until unemployment is liquidated. The assumption seems to be that unemployment, especially in the villages, is a short-term phenomenon of the kind familiar in organised individualistic countries, and that it is more acute in the villages and that consequently exceptional temporary measures to curb production in urban factories and mills would be justified with a view to stimulating village industries and providing more employment.

Our agricultural production has increased far beyond our expectations during the last few years, due partly to favourable monsoons and partly to irrigation, improved methods of cultivation and use of fertilisers, but there has also been an increase in the acreage cultivated. *Prima facie*, it would appear that the number of persons employed in agricultural operations could not have decreased.

Apart from this, it may be noted that between the two Census years 1941 and 1951, the rural population increased by only about 9 per cent. while the urban population increased by over 41 per cent. The percentage increase between 1931 and 1941 was 12 per cent rural and 31 per cent urban. After allowance is made for rural areas, which in the following census have been classed as urban, owing to natural growth of population, it is clear that there has been a continuous large-scale migration from rural to urban areas. The principal cause of this development would appear to be the attraction of the much higher wages paid in the factories and mills and the greater opportunities of employment in urban areas.

Apart from the inferences which could be drawn from the figures I have given you about the relative growth of population in rural and urban areas, it would appear that the problem of unemployment has attracted greater attention during recent years owing to the abnormally large number of unemployed among the higher educated and more vocal urban population. No accurate figures as to the extent of this unemployment are available, for the figures supplied by Labour Exchanges, as you all know, afford no criterion for the assessment of the unemployment situation. We have, however, some statistics of the number of students in colleges and secondary schools. The number of students receiving university and college education increased from 74,000 in 1931 to 4,44,000 in 1951 (i.e. six times) and of students in secondary schools from 18 lakhs in 1931 to 57 lakhs in 1951. It seems to be generally recognised that the number of jobs open to this class has not increased in the same proportion. The results of an enquiry by the Lucknow University, which have recently been published seem to confirm this. In Calcutta, the drift of the educated youths to communism has been attributed by many educationists to the sense of frustration resulting from large-scale unemployment among the higher educated people. The facts and figures I have given you are by no means conclusive, but they seem to indicate that the problem of unemployment among the better educated classes is more serious than in the villages. These classes are not likely to be attracted by cottage industries with their comparatively low level of earnings. A remedy based on a wrong diagnosis and applied at the wrong place may actually aggravate the problem of unemployment, and it seems to me that before any fundamental change is made in our economic policy, which has hitherto proved very successful, there should be a detailed investigation by expert economists and others into the extent, nature and distribution of unemployment.

There is a third aspect to which I should like to draw your attention. The First Five-Year Plan placed major emphasis on irrigation and agricultural schemes with a view to strengthening directly the basis of our economy. This produced excellent results. The shift in the bias in favour of industry, construction and social services in the Second Five-Year Plan is equally calculated to strengthen the national economy as well as the rural economy by continuing to draw off from the land and to absorb in non-agricultural pursuits the steady stream of population from the villages to the urban areas. I would like you to consider whether this trend is to be deplored from the economic point of view, for it seems to me that it is part of the economic transformation by which the age-long pressure on land should be relieved and the increasing population afforded widening avenues of employment at increasing real wages in secondary and service occupations. In the objectives of economic development, therefore, the interests of the agricultural and non-agricultural sectors of the economy are not conflicting but are mutually consistent and, indeed, common.

I realise the importance from the sociological point of view of the consequences of this drift of the surplus rural population to the cities, where they have to live in the demoralising conditions of slum life, but even in Japan, where you have one of the best systems of cottage industries organised on a co-operative basis, which makes full use of electrical power and technological improvements, this drift to urban areas still continues. While I strongly support the development of efficient cottage industries in India with a view to providing subsidiary

occupation for agriculturists, I doubt whether this migration to urban areas can be arrested so long as a wide disparity exists between the wage levels in rural and urban areas. If this drift is inevitable and economically not harmful, it seems to me that an appropriate remedy would be improvement of living conditions in cities and high priority for slum clearance and urban housing. Another measure, which has been adopted in other countries is the location of new industries in regions where there is acute unemployment. In India, with improved communications and credit facilities and supply of electrical power, a certain measure of decentralisation of medium-scale and some types of large-scale industries should be possible.

It is generally recognised that our First Five-Year Plan has been a striking success in spite of the formidable difficulties with which we were confronted in the early years of our independence. Even foreign countries and international institutions, such as the World Bank and the International Monetary Fund, have paid a tribute to what they have described as our astonishing achievement and our remarkable development with stability during the last four or five years. Our production, both agricultural and even more so industrial, has substantially increased and despite a significant measure of deficit financing during the last two years, our general price level has shown remarkable resistance to upward pressures, although practically all internal controls have been abolished. We have been able to avoid inflation, primarily because our policy has been to encourage both agricultural and industrial production in every possible way. The need for the largest increase in consumer goods—agricultural as well as industrial—becomes even more imperative with the high rate of investment and deficit financing contemplated in the Second Plan, if we are successfully to curb inflationary pressure. The policy of maximum production is not inconsistent with a socialistic pattern of society, for the production can be distributed on any ideological or other principles, which the Government may choose to adopt.

Since our past policies have been so signally successful and we have exceptionally stable economy, any radical departure from that policy by the introduction of curbs on production of large-scale and medium-scale industries can be justified only if a careful investigation establishes that this drastic change would produce better or quicker results. On you economists, who have assembled here, and who have had the opportunity of examining the Draft Plan Frame, will rest the responsibility for examining from all points of view the problem of unemployment and the remedial measures proposed and the possibilities of inflationary pressure that is likely to be generated as a result of these measures. I have no doubt you will do so dispassionately and uninfluenced by ideological or political bias or by economic superstitions.