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INDIA

I. IMPACT OF WAR AND EXTENT OF RECOVERY

1. Introduction

Although World War II only directly touched Indian soil in the northeast corner and involved several east coast cities in comparatively minor air raids, India emerged from the war with greater damage and loss to her manpower and resources and with her economy more disrupted than many countries whose territory had actually figured in the fighting or been occupied by the enemy. While on the positive side the supply problems flowing out of the war acted as a powerful stimulus to the development of a whole series of important new industries, the war-produced stresses and strains on the Indian economy acted as a brake on their expansion so that they only supplied a fraction of the country's almost limitless needs. However, with Japan eliminated for the present as a major factor in the economy of the Far East, India, notwithstanding its underdevelopment, is now the most important industrial country in the area and must be reckoned with in any plans for reconstruction and long term economic development in the Far East.

2. Living Conditions of the People and Manpower

The after-effects of the impact of war on India are as huge as the country's dimensions and population. The total area amounts to 1,581,410 square miles. This figure includes 865,446 square miles for British India and 715,964 square miles for the Indian States and Agencies. The population of all-India at the last census (1 March 1941) totalled 388,997,955 of which about three-fourths were in

/British

British India and one-fourth in the Indian States and Agencies. With a yearly increase at the rate of 5 million, it is now estimated that the population exceeds 400 millions. (Direct war losses in killed and missing amounted to 36,000).

Predominantly an agricultural country, 89 percent of the total population live in rural areas, in about 700,000 villages. Urbanization, brought about largely through industrialization, has moved slowly, the percentage increase of urban population to the total only amounting to 3.5 percent in the last fifty years. India has only 23 cities with a population of more than 200,000.

In this largely agricultural land the outstanding problem is the excessive pressure of population on the soil. The last 70 years has seen a great increase in population - some 200 million. As this has not been accompanied by a commensurate increase in land area or industrialization, the burden has fallen most heavily on the agricultural economy. About 30 percent of the population now subsisting on the land are probably in excess of the maximum number it can sustain at subsistence level.

The impact of war on India produced doubly complicated problems. The country with its involved social structure, formed on a pattern laid down perhaps 50 centuries ago, was gradually emerging and adapting itself to the modern world. The development of industry in the past three decades has done little to change the predominantly rural character of the Indian economy. While part of the rural population engages in the production of such cash crops as jute, cotton, oilseeds, and tea which are important in the country's foreign trade, the bulk of agriculturalists are subsistence farmers

/whose

whose low productivity set in a frame of industrial backwardness and under-development is responsible for India's annual per capita income (\$20) being one of the lowest in the world.

India entered the war with her economy that had still not recovered from the economic depression of the thirties. The decade ending with the outbreak of war saw the prices of exports from India still about half the pre-depression normal, while import prices had not fallen commensurately. The beginning of the war temporarily relieved this situation. Agricultural prices rose 40 percent and there was expansion in certain industries (pig iron, coal, steel, and paper). This period ended, however, with the entry of Japan into the war and the over-running of Southeast Asia. India at once became a major base of operations for two fronts. An immediate expansion in demands for war products and an expansion of employment in industry followed. The Indian armed services reached a total strength of more than two and a half million. But shortages incident on diversion of production and cutting off of sources of supply, plus the greater volume of money in circulation and lack of controls in the form of adequate rationing produced inflation. Inflation is stressed here as it is one ailment that India's postwar economy has fallen heir to.

The civilian "fat" which many countries were able to consume during the war had never existed in India whose low standard of living left no margins for sacrifice. The results have carried over into peacetime to complicate plans for reconstruction.

Health

The extra burdens of war weighed heavily on the health of the Indian people, a health so poor in the best

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years before the war that its salient features were an expectation of life (for a man at birth) of 26.9 years as compared with 58.7 in England; an infant mortality rate in 1937 of 162 per 1,000 live births as compared with 186 in Burma or 58 in England. The annual toll of deaths attributable to bad environmental and social conditions - cholera, plague, small pox, dysentery, tuberculosis, leprosy and malaria ran into millions. Sir J. Bhore in his recent report to the Government of India on the country's health, estimated that the annual economic loss due to malaria - which affects 60 percent of the population - exceeded \$300 million. The discovery of DDT and the new drug Paludrin may revolutionize the incidence of this disease and have very far-reaching results on the health of the people.

To deal with this problem India only has 42,000 fully-qualified doctors of medicine, i.e. one to every 10,000 people, as against one to every 800 in England. The impossibility of this inadequate service coping with a problem of such dimensions was increased by the withdrawal of many doctors and nurses into military services.

Housing

Another grave problem aggravated by the war was the almost complete cessation of civilian building for a period of five years. This caused great hardships for the working population in the growing industrial areas. A country whose population increases at the rate of about five million yearly and whose industry is developing requires a continually expanding building programme.

3. Food, Agriculture and Forestry

According to nutritional experts, even in the best seasons - 130 million Indians suffer from serious undernourishment. Field dietary surveys in both rural and urban areas show the extent of malnutrition. The typical male adult in small villages in Southern India was found to have an average daily calorie intake of 1,700. In Madras suburbs the figure was 1,800 which nutritional experts regard as considerably lower than the physiological minimum for medium agricultural or manual labour. Each year's population increase (5 million) makes the food problem - both amount and composition - the more difficult to solve. The following index numbers of variation of population and production of food grains in British India indicates the seriousness of the situation.

	<u>1929-30</u>	<u>1939-40</u>
Population	100	115
Production of foodgrains	100	96

This was the normal situation in which India found herself when the Japanese changed the war into a global conflict. The vulnerability of India's food situation was fully revealed by the fall of Malaya, Singapore, and Rangoon, and the whole economy was shaken.

Indian agricultural statistics are not as precise as those of more developed countries but it is generally agreed that the normal production of cereals is about 52-53 million tons, including rice, wheat, millets, and that consumption is 54-55 million tons. Imports make up the 2 million tons deficiency. It must be remembered that although the proportion of imports to total consumption is very small, it represents the minimum requirements of the bare overall subsistence level. Yearly variations in production over the country as a whole may run to 10 percent. Local shortages which might amount to 50 percent or even more in a bad year, were largely adjusted by free flow of grain from surplus areas by

/efficient

efficient rail transportation, and by rice imports from Burma.

This system worked well enough in peace-time, but was not proof against the exigencies of war, as was clearly shown in the Bengal Famine of 1943-44. By 1942-43 the needs of military transport had largely eliminated grain movements from surplus to deficiency areas. This was followed by the destruction or removal by the authorities for defence purposes of small river craft in Bengal and the result was a complete breakdown of transport. The elimination of rice imports from Burma, always the main source of supply for Bengal, made severe scarcity in this rice-eating country inevitable. It was further aggravated by local administrative inefficiency which failed to cope with hoarding and black marketing while the after-effects of the floods of 1942 reduced the power of the provinces to help. For four months the province was devastated. The Woodhead Commission set up by the Government of India to investigate the Bengal famine concluded that its grim toll amounted to a million and a half deaths directly due to the famine and subsequent epidemics. A measure of this tragedy is that the loss of life was five times as great as the total losses of the armed forces of the British Empire in nearly six years of war.

As a result of the Bengal disaster the Central Government intervened to take over control of the food situation. It co-ordinated control measures such as price control, rationing, (by mid-1946 more than 53 million people in 556 towns were covered), stockpiling, transportation, procurement, and supply. The area of crop lands was extended and there was a diversion of some cotton and jute lands into food production. The area involved was about 5 million acres. The Commission recommended the pegging of the price level at 240 percent of the average for the five years ending 1938-39.

Forestry

The extensive and valuable forest reserves of India are scientifically
/and carefully

and carefully conserved and administered but the urgent requirement for timber for the war inevitably resulted in some over-exploitation of forest resources. In the Provinces advance felling exceeded annual yield by about six years. In the privately owned forests in the Indian States the over-exploitation was even greater. Measures to repair the damage done by over felling will probably result in timber being in short supply for a number of years.

4. Industry

General

In relation to size, resources, population and needs - especially wartime needs - India's wartime expansion of industry was small and from the viewpoint of future economic development unsatisfactory. In such important industries as cement and iron and steel, capacity was increased. The production of such items as army uniforms was increased into the millions but this was partially accomplished by diversion from civilian production, in some cases amounting to 90 percent of total output.

Many new industries were established, particularly in chemicals, scientific instruments, and textile machinery, but as Table I shows, output hitherto has been small.

When the overall picture is surveyed, industrial expansion is seen to have been limited, particularly if measured against present needs of India and the devastated areas in the Far East.

In Index of Industrial Activity (maintained by the publication CAPITAL) moved from 111 in August 1939 to about 130 at the end of the war and it continues at this level. There have been serious fluctuations in industrial production. Most serious was the fall in coal production from 28.34 million tons in 1938 to 25.51 million tons in 1943. Present production figures are at prewar levels. A more comprehensive picture of wartime industrial production is revealed in Table II.

Textiles

Well established before the war, the textile industry, including the weaving of fabrics of cotton, jute, wool, silk and artificial silk, is one of the country's chief industries. In 1938-39 mill production of cotton cloth amounted to 4,269 million yards. Handloom output probably accounted for about 1,300 million yards. Jute manufactures amounted to 1,221 million yards. Mills employed over one million persons and the handloom industry about six million persons. India follows the United States as the world's

TABLE I

TABLE I

Industries Which Came Into Being During The
War and Figures of Production

Industry	Production per annum approximate
1. ALKALI Industry-	
Caustic Soda	4,500 tons
Bleaching Powder	7,500 tons
Liquid Chlorine	1,800 tons
2. Soda ash and Sodium Bicarbonate	7,500 & 1,500 tons respectively
3. Potassium Chlorate	1,600 tons
4. Sodium Sulphate	3,000 tons
5. Bichromates	5,000 tons
6. Chromic acid	100 tons
7. Fine Chemicals-	
Aceton	800 tons
Oxalic Acid	100 tons
8. Miscellaneous Chemicals-	
Sodium Thiosulphate	1,000 tons
Sodium Sulphite	500 tons
Chlorosulphonic Acid	25 tons
Zinc Chloride	1,000 tons
Calcium Chloride	1,000 tons
Barrium Chloride	100 tons
Lead Acetate	200 tons
9. Waterproofing Compound	200 tons
10. Refining of non-ferrous scrap White Metal	Total output not known.
11. Lead Pipes	350
12. Aluminum	1,500
13. Water Fittings	100,000 Numbers.
14. Textile Machinery Looms and spindles	Total output not known.
15. Electrical Accessories-	
Black adhesive tapes	40 tons
Conduit Pipes and 'D' class signalling cables	Total output not known.
16. Pressure oil lamps	36,000 Numbers
17. Stoves	60,000 Numbers
18. Scientific Instruments	Total output not known.
19. Grinding wheels	310 tons

Note: - The list is not exhaustive.

Source: Indian Legislative Assembly Debates - Tuesday, 19 February 1946
Vol. II - No. 5 - Page 1100.

Industrial Production in India

(April to March)

Description						
	1939-1940	1940-1941	1941-1942	1942-1943	1943-1944	1944-1945
I. Jute Manufactures including twist and yarn,...	Tons 1,275,909	Tons 1,109,252	Tons 1,276,961	Tons 1,247,231	Tons 1,067,857	Tons 1,097,000
II. Paper	Cwts. 1,416,207	Cwts. 1,753,235	Cwts. 1,871,206	Cwts. 1,820,833	Cwts. 1,752,154	Cwts. 2,001,000
III. Distilleries and Breweries:-	L.P.gallons.	L.P.gallons.	L.P.gallons.	L.P.gallons.	L.P.gallons.	L.P.gallons.
(a) Distilleries (Country Spirit Indian made foreign Spirit Rectified, denatured spirit, etc.)	9,241,386	10,586,627	12,850,011	13,592,712	16,028,841	16,790,300
(b) Breweries (Beer) Porter, Stout, etc. ...	1,310,888	1,889,361	3,463,414	3,608,927	3,331,788	3,555,400
IV. Paints	Cwts. 686,843	Cwts. 804,666	Cwts. 1,119,504	Cwts. 990,526	Cwts. 1,149,872	Cwts. 1,129,000
V. Matches	Gross 21,970,104	Gross 23,124,788	Gross 16,509,312	Gross 14,831,047	Gross 17,963,932	Gross 17,095,000
VI. Wheat Flour	Mds. 16,310,547	Mds. 16,899,640	Mds. 18,176,999	Mds. 13,392,485	Mds. 14,662,663	Mds. 14,892,000
VII. Sugar (12 months-November to October).....	Cwts. 25,840,541	Cwts. 23,148,963	Cwts. 15,901,523	Cwts. 21,713,710	Cwts. 17,042,000	Cwts. 22,057,000
VIII. Iron and Steel Manufactures:						
(a) Pig Iron	Tons 1,837,636	Tons 1,963,278	Tons 2,015,221	Tons 1,804,353	Tons 1,686,551	Tons 1,303,000

Source: India Legislative Assembly Debates
Friday, 22 February 1946
Vol. II - No. 8. - Page 1341.

Industrial Production in India - Cont'd.

Description	(April to March)					
	1939-1940	1940-1941	1941-1942	1942-1943	1943-1944	1944-1945
	Tons	Tons	Tons	Tons	Tons	Tons
(b) Iron Castings and manufactures.....	129,299	132,390	140,461	125,149	122,913	106,000
(c) Steel Ingots.....	1,070,355	1,253,805	1,363,307	1,299,327	1,365,510	1,264,000
(d) Semis.....	872,169	970,633	1,057,887	972,531	1,042,086	952,000
(e) Finished Steel.....	804,469	679,875	991,902	906,620	978,373	923,000
	Gallons	Gallons	Gallons	Gallons	Gallons	Gallons
IX. Petrol.....	21,065,965	21,310,553	24,403,031	28,616,821	29,257,414	30,611,000
X. Kerosene Oil.....	28,176,476	39,928,280	36,115,404	24,660,178	16,919,050	15,936,000
	Tons	Tons	Tons	Tons	Tons	Tons
XI. Cement.....	1,733,400	1,727,453	2,222,418	2,182,818	2,111,218	2,044,000
	Cwts.	Cwts.	Cwts.	Cwts.	Cwts.	Cwts.
II. Heavy chemicals (Other than Ammonium sulphate).....	960,397	1,119,646	1,237,879	1,180,069	1,219,650	1,948,000
(a) Ammonium Sulphate						
(1) Neutral and)	Tons	Tons	Tons	Tons	Tons	Tons
(11) Acid)	20,089	27,633	29,993	25,209	22,666	22,405

Source: India Legislative Assembly Debates
Friday, 22 February 1946
Vol. II - No. 8 - Page 1342.

largest raw cotton producer. The average annual production of raw cotton for the five prewar years was 4.7 million bales (478 lb. bales). A significant wartime development was the reduction of cotton acreage (about 25 percent in 1946-47) and diversion of the land to food crops.

The war saw an increase in cotton-mill production of about 14 percent over 1938-39. This was substantially exceeded by the handloom industry. The high production levels reached in wartime are at present being maintained. However, the increase in the number of spindles was only 6 1/2 percent - from 19,059,370 to 10,730,518 and the number of looms declined from 202,464 to 200,890. Improvement in this industry was prevented by shortages of coal, skilled labour and materials for textile maintenance and repair. It has been estimated that half of India's spinning machines, power looms and sizing machines are in need of replacement.

Another important wartime development was the conversion of the industry to supplying wartime needs which resulted in the supplies available for civilians dropping by more than 30 percent.

The production of raw jute, of which India has virtually a monopoly, declined during the war, as did exports, owing largely to shipping shortages. Production of jute manufactures also declined about 25 percent.

The wartime growth of the woollen textiles industry was phenomenal, rising from an annual production of 7.3 million pounds to 27 million pounds. Further expansion of the industry is dependent on imports of machinery. The woollen handloom industry and the woollen knitting industries also saw a substantial wartime expansion, production of hose increasing from 400,000 to 1,225,000 pairs per month and garments from 140,000 to 425,000 per month. The output was largely acquired for military purposes.

/The large-scale

The large-scale clothing industry was a direct outgrowth of the war, monthly output in 1942-43 averaging 10 million garments. Similarly the leather industry underwent a substantial expansion. Annual output has been estimated at 20 million cowhides, 5.5 million buffalo hides and 44.5 million goat, kid and sheep skins. Internal needs, particularly by the military were met by an increase of 20 times prewar output. Annual production of army boots rose from 100,000 pairs a year to 6.5 million pairs.

Chemicals

Great as the wartime expansion of the chemical industry was - Table II shows a more than 100 percent increase in production of heavy chemicals - India is not yet able to produce enough to meet her requirements. Thus, even though the annual production of sulphuric acid was raised from 40,000 tons to 93,000 tons, this falls far short of needs, and results in a similar shortage of nitric acid, copper sulphate, and bichromates for which it is a basic raw material. The annual requirements of bleaching powder are 11,000 tons but production has only reached 3,000 tons. Only a fraction of caustic soda requirements are being met out of local production. Little more than 50 percent of the annual requirements of sodium carbonate are being produced locally. Other important chemicals such as potassium, chlorate, sodium sulphide were started during the war but production (as shown in Table I) was small.

On the other hand, the cutting off of imports greatly stimulated the establishment of a fine chemicals and pharmaceuticals industry. More than 50 percent of drugs used in India are now manufactured locally.

Production of fertilizers was also stimulated by the war but notwithstanding an increase in output of almost 100 percent, only about one-twentieth of present requirements for planned expansion of food production are being produced indigenously.

Heavy Industries

The most successful wartime industrial expansion took place in the sector of armaments production. Following the decision of the Eastern Group Supply Council established in 1940 to co-ordinate production in the Indian Ocean-Southwest Pacific region, India produced machine guns, anti-aircraft guns, anti-tank guns, and optical and fire combat instruments, etc. The further expansion of the armaments industry to include the production of automobile and aircraft engines was greatly favoured by Indian industrialists but this was ruled out by an early and general decision by the Central and Provincial Governments against encouraging any industry which could not deliver its goods within about a year. As events unfolded this turned out to be too short a view.

The weak side of the prewar Indian industrial structure was the virtual absence of a rounded out engineering industry. Those industries in existence had depended on public works construction which had tapered off during the depression years before the war. The war, however, stimulated significant growth, especially on the metallurgical side. The well-developed iron and steel industry not only expanded annual production of pig iron from 1,750,000 tons to more than 2 million tons and finished steel from 750,000 tons to 1,250,000 tons but produced many special steels required for armour plate and ordnance. Ancillary industries were established such as ferro-alloys, tinplate, bolts, nuts and rivets, wire. Very important too was the beginning of non-ferrous metal production, including aluminium, copper, lead, zinc, tin and other non-ferrous metals. As stated earlier, the output was small in relation to present and future needs but it is important to emphasize the success with which these basic industries were newly established.

Machine tools production which before the war had been negligible, with output less than a hundred units, rapidly expanded until by the

/middle

middle of the war production exceeded 4,500. The hand tool industry was also greatly expanded. Prewar output barely supplied 10 percent of requirements. The industry now supplies virtually all internal needs. Other industrial products appearing for the first time or in greater numbers include centrifugal pumps, hand pumps, oil engines, weighing machines, jacks, textile machinery, cement making machinery, dairy equipment, road making equipment and a wide range of electrical machinery and accessories. Nearly 400 million dry cells and batteries were produced. The prewar output of freight waggons (2,600-3,000) was expanded to 9,000 a year.

Difficulties of supply held back more rapid expansion of shipbuilding and repairing. During the war more than 2,000 craft - including large cargo vessels - were built in Indian yards. By 1945 more than 500 ships were under construction. Over 50 million tons of allied merchant shipping were repaired in Indian yards. 5 floating docks were constructed including two of the biggest in the world.

Other Industries.

Amongst other industries which saw large wartime expansion were cement whose production rose from 1,700,000 tons in 1939-1940 to more than 2,500,000 tons by mid-1946. Also significant is the fact that the industry now manufactures its own plant.

Woodworking industries expanded greatly to meet war needs, two of contemporary importance being the bodybuilding and plywood industries. Distillation of industrial alcohol and production of paints and varnishes was also greatly expanded (see Table II). The production of soap which before the war approximated 157,000 tons dropped seriously through the cutting off of caustic soda supplies but revived after the establishment of local caustic soda production (see Table II).

Literally hundreds of new products appeared - cycles, rubber products,
/cutlery

cutlery, glass, crockery, enamel ware, brushware, surgical instruments and dressings, paper products, hemp and coir rope, buttons, safety razors and many other consumer goods. Important too was the expansion of the food processing industries such as biscuit making, dehydration and fruit canning.

Manpower

The great increase in employment in all industries provided India with a specially valuable postwar asset in the form of a substantial addition to the labour pool of skilled workers. In the heavy industries the increase was about 70 percent. Technical training schemes were established to provide a flow of skilled labour of every category. By the end of the war more than 100,000 persons had been trained in 164 centres, including about 1,000 who had had advanced practical training in industrial plants in Great Britain. A number of the centres are still in use but only an eighth of the estimated number of technical workers required annually are at present undergoing training.

5. Foreign Trade and Balance of Payments

As a result of large British wartime purchases in India the country emerged from the war as a creditor nation. The publicity which has accompanied this quite important development has however tended to obscure the relatively minor part India has played in world trade. In the immediate prewar years India's percentage of world imports was about 2.5 and of world export 3.3.

Since the first world war new patterns have been forming in India's foreign trade through important changes in its composition and direction. Raw material imports, which in 1928-29 comprised 9 percent of total imports, more than doubled. At the same time imports of manufactured goods which in 1928-29 constituted 71 percent of imports declined by 1938-39 to 61 percent. The gradual industrialization which has been going on since the first world war was also reflected in the export picture. Raw material exports which in 1928-29 accounted for 52 percent of exports declined to 45 percent by 1938-39 and manufactured goods which comprised 27 percent of exports in 1928-29 increased to 31 percent by 1938-39. This trend which the war did little to change has important implications for the role which India can play in the reconstruction of devastated areas in Asia and the Far East, particularly in her capacity to supply some of the manufactured goods so urgently required.

Changes also took place in the direction of trade, the most marked being the rise in exports to British Empire countries and decline in imports from those countries. It is not yet possible to predict how far this change, which was a direct result of the war, will continue with the resumption of British exports. Table III shows percentagewise the principal countries or groups with which India trades and Table IV shows the value of imports and exports, and India's balance of payments. It should be noted that these figures do not give the full picture as figures on lend-lease, reverse lend-lease or trade on government or defense account are not included.

/TABLE III

TABLE III

India's Foreign Trade - Countries
(Percentage)

	1938-39		1939-40		1940-41		1941-42		1942-43		1943-44	
	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.
U.K.	30.5	34.1	25.1	35.1	22.8	34.7	21.1	32.4	26.8	30.5	25.1	30.2
Total												
British Empire	58.1	52.4	56.3	55.9	57.3	62.4	61.0	62.7	55.5	67.1	48.0	64.5
U.S.	6.4	8.5	7.1	11.9	17.2	13.8	19.9	19.5	17.3	14.8	15.5	20.2

TABLE IV

India's Foreign Trade - Value
(0,000,000 rupees)

	1938-39		1939-40		1940-41		1941-42		1942-43		1943-44	
	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.
Total Trade	152.3	162.8	165.3	203.9	157	187	173.3	237.6	110.5	187.6	118.9	199.2
Balance	+ 10.5		+ 38.4		+ 30		+ 64.4		+ 77.1		+ 80.3	

The decline in foreign trade early in the war was soon reversed (Table IV). The steady rise in the import price level during the war was more than offset by the rise in the export price level and the change from debtor to creditor accompanied by greater diversification of markets saw the close of the long period during which the terms of trade had been to India's disadvantage.

6. Finance

As indicated earlier, India came out of the war as a creditor nation. Not only was she able to repatriate prewar sterling debts but was able to accumulate sterling balances in London which at the end of the war in August 1945 amounted to more than £1 billion. This was the most important development on a financial front which saw great changes.

Government revenue increased from 1,210 million rupees* in 1938-39 to 3,690 million rupees in 1944-45 (estimate). A substantial part of this increase came from direct taxation. Government expenditures also increased greatly - from 1,217 million rupees in 1938-39 to 4,146 million rupees in 1944-45 (estimate). War expenditure accounts for the greater part of this increase. The deficit has been met largely by borrowing. The total public debt of British India in 1942-43 amounted to about 11,000 million rupees.

Inflation

The pressures of war on the internal economy produced a serious inflation which the transition to peace has done little to alleviate. With India's development into a major supply base after Pearl Harbour, large quantities of Indian goods and services were purchased by the British government and paid for in rupees which were obtained by sale of sterling to the Reserve Bank of India. Between 1 September 1939 and 18 October 1946 the amount of currency in circulation increased more than 600 percent. Added to this was the expansion of Indian government expenditure. While there was some increase in production, this was mainly in non-consumer goods. In addition a large proportion of consumer goods was diverted to defence purposes. Finally the prewar trend of net import of manufactured goods was reversed, and a net export of manufactured goods from India contributed to the shortage of goods available for civilians.

* The Indian rupee is linked to sterling and its current value is about \$0.30.

The Cost of Living Index shows the dimensions of Indian inflation. The Index for Bombay (base 1929 = 100) shows a steady rise from 106 in 1939 to 268 in July 1946. For Ahmedabad comparable figures are 75 in 1939, and 210 in May 1946. The Food Price Index for Bombay was 114 in 1939 and had risen to 334 by July 1946.

II. INDIA'S PLANS FOR THE FUTURE

The present economic problems of India differ greatly from those of highly developed countries such as the United States and the United Kingdom. In these countries a major problem is the maintenance of high levels of employment and an orderly switch from a wartime economy to a peacetime economy. In India there is, of course, the immediate problem of providing gainful employment for demobilized soldiers, controlling inflation, and reconverting certain war industries to peacetime uses. But the real task ahead is more fundamental, and is not only essential to India, but is intimately associated with future economic development in the under-developed areas of Southeast Asia and the Far East. This is the tremendous task of raising national and per capita income through efficient utilization of India's vast manpower and material resources. One positive fact which emerged from the war was the almost universal determination by informed Indians to reshape their economy.

There are five major plans for the economic reconstruction of India. These are the Central Government Plans, the Provincial Government's Plans, the Indian State Government's Plans, the industrialist so-called "Bombay Plan", and the "People's Plan" of the All-India Trade Union Congress. What is striking is the strong endorsement by all these plans of a common basic policy calling for a revolutionary reorganization of the entire agricultural structure, and planned industrial development with the aim of multiplying the excessively low per capita production so that the national income may be raised within a comparatively short

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time to three or four times its present level. Heavy industrial expansion will have top priority in all plans. The ambitious nature of the plans is realized from their objectives. Covering periods up to twenty-five years, some of them envisage a 200-400 percent increase in agricultural output and a 500-600 percent increase in industrial production.

At the end of 1946 India was going through what Indian economists called a "planless interregnum". The Central Government's policy, stated on 21 April 1945, proposed "to take active steps to encourage and promote the rapid industrialization of the country to the fullest extent possible with a view to obtaining a vast increase in the national wealth, better preparation for defence, and a high and stable level of employment". Linked to this is the government's trade policy which calls for developing the export of partially or fully manufactured goods rather than the export of raw materials, and diversification of markets with special emphasis on neighbouring countries in the East. Political difficulties, however, and an uncertain future have done much to hinder the translation of this policy into action.

On a long-term view of a healthy world economy, there are two hopeful and constructive aspects of the various plans for the economic development of India. First, the spreading of the drastic agricultural and industrial changes over a period running up to twenty-five years, rightly recognizes that a substantial time is needed for the necessary adjustments to be made in local as well as world economy. Second, none of the plans are of an autarkic nature. Self-sufficiency will not be the national goal. In certain vulnerable areas of the economy such as food production, India will have to become more self-reliant, but the importance of foreign trade is emphasized in all plans for India's future.

From the picture of the war's impact on the Indian economy outlined above, it would be over optimistic to expect that India could make a major contribution to the immediate reconstruction needs of the devastated

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areas in Asia and the Far East. In general those things of which India has an exportable surplus are raw materials such as manganese, mica, jute, etc., which, with some exceptions such as sugar which India can supply, are not required in the devastated areas, at least not in their raw form. There are, however, a number of manufactured goods whose production has expanded sufficiently for supplies to be available for neighbouring areas. Of great immediate importance are textiles and clothing. It should be noted that these are "incentive goods" needed to stimulate agricultural production in such countries as Burma, Siam, and Indo-China. By supplying these countries with textiles and clothing, India has at hand the means of partially satisfying her rice needs. At best, however, India can supply only a fraction of the enormous arrears of demand.

Other industrial products which may be available include paints and varnishes, paper products, chemicals, pharmaceuticals, some rolling stock and railroad equipment, cement, some iron and steel mill products, war surplus materials, and matches.

The realization of India's potential power to make a real and large scale contribution to recovery in Asia and the Far East lies in setting in motion some of the plans for her economic development mentioned above.

While the immediate effects of India's industrialization will be a great need for the goods of other countries, especially capital goods, at the same time there will also be a great demand for consumers' goods and for raw materials. The development of India's foreign trade will integrate her more closely into the world economy and aid in the general recovery of neighbouring areas devastated during the war.