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There is, however, perhaps an alternative solution to the sugar problem. The actual production of sugar (including gur and khand-sari) is approximately 10 million tons per year. Now, although gur may be considered a valuable cottage industry, it is, in fact, a waste of sugarcane because the recovery in the manufacture of gur from sugar-cane is only 6 per cent while the recovery in the manufacture of sugar is about 9- 1/2 to 10 per cent. There is no reason why, therefore, this wasteful method of production should continue to be encouraged. Therefore, one way of lowering the price of sugar would be to encourage sugarcane-growers (who also normally are gur-manufacturers) to start co-operative factories with help from the Government and enable them eventually to convert their profits from gur into profits from sugar. In fact, the most advanced State in sugar production, Maharashtra, has already licensed many co-operative sugar factories which are running extremely successfully to the benefit of the growers. The result has been a rapid decline in the production of gur in this area and a healthy diversion of cane to the production of sugar. The change-over from

the production of gur or khand-sari to that of sugar could be speeded up by combining the encourage mem of the sugarcane-growers to take to co-operative crushing with some disincentive for gur and khand-sari production in the form of a small duty on these products.

The trouble is that the Government tends to be bogged down in its own fads. It has for so long been convinced that nothing should be done which may be detrimental to the farmer even temporarily that it prefers no change rather than experiment with some boldness and endeavour to modernise an ancient industry in the country.

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#### Letter to the Editor

#### **The Case for Devaluation A Comment**

DEVALUATION is identical in its impact on foreign trade to the imposition of a general and *uniform* subsidy on exports and tax on imports. The advantage of an export subsidy-cum-import tariff system lies, however, in the fact that it can be operated to produce an overall (i e average) impact equivalent to a desired degree of devaluation while at the same time differentiating the impact on specific items of exports and imports in tune with the individual price elasticities and other relevant considerations. The choice between a straight devaluation and such a policy of selective tariffs-cum-subsidies is equivalent to the choice between a single and a multiple exchange rate system. I feel that by concentrating on the inflationary aspect of devaluation, Bhagwati (*Economic Weekly*, August 4, 1962) has bypassed this more important aspect of the question.

The selective measures of export subsidy which are now being operated by the Government do not, as argued by Bhagwati, in themselves constitute a sufficient proof of the price elasticity of our exports *as a whole*. A case for devaluation has yet to be establish-

ed through an explicit proof that (i) the major portion of our exports are price sensitive, and (ii) that the price elasticities are more or less uniform over a large area of exports. Again, on the import front, it is not sufficient to argue that the domestic price impact of devaluation is similar to that of import tariffs since this argument implicitly assumes that the tariff rates are *uniform*. The present system, however, enables differentiation in respect of the tariff burden depending upon the nature of the imported good and its importance to the economy.

A second distinction between devaluation and a tariff-cum-subsidy scheme is that, while the former affects *all* foreign payments and receipts, the latter affects only the goods (and services) side of the transactions and does not affect the value of profit remittances of foreign investors or the capital value of their investments in the country. This is an important consideration since the loss of capital values and profits by foreign direct investors following devaluation could seriously affect the future rate of inflow of private foreign capital, especially, if an initial devaluation creates apprehensions of further devaluation in the future.

Thirdly, it may be pointed out that subsidy-cum-tariff scheme has the advantage of greater flexibility in the sense that the rates of export subsidies and import duties can be frequently adjusted to meet the needs of changing situations while devaluation has to be a fairly long-term move. In this sense the former is more akin to a *flexible* exchange rate system without, however, introducing the uncertainties which such a system will impose on foreign investors.

I submit that until these various issues are analysed and discussed, the case for devaluation can not be considered as established.

RAJIV

#### **Studies in Voting Behaviour**

"Extent and Limits of Community Voting : The Case of Baroda East" by Rajni Kothari and Tarun Sheth, the eighth article in the series "Studies in Voting Behaviour" will appear next week.

- Ed ,

constructed would be directly useful to the public and the public would be entitled to use the work as of right for its own benefit in accordance with the terms of agreement.

Under the Land Acquisition Act of 1894, land may be acquired for a public purpose as also for companies. The purpose for which acquisition of land for companies may be made are, however, restricted and specified. Such acquisition may be made for obtaining land (a) for the construction of houses for workmen or for the provision of "amenities directly connected therewith"; or (b) for the construction of some works which are "likely to prove useful to the public".

The Supreme Court's decision thus had far-reaching consequences since many State Governments had acquired land for companies and it was doubted if all such acquisition would come within the stringent interpretation given to the Act by the Supreme Court,

Some of the State Governments made representations to the Central government that the Supreme Court's decision would not only render planned development of industries difficult but would also make the Requisition of land for companies already made in the past questionable in courts of law. Claims might be made by previous owners whose land had been acquired for the restoration of their land or for payment of damages. It was to forestall any such possible developments that the Land Acquisition (Amendment) Ordinance was promulgated in July this year, amending the Land Acquisition Act and also validating all past acquisitions of land made by the Government for companies.

The Land Acquisition (Amendment) Bill which was introduced by Shri S K Patil in the Lok Sabha on August 1 was intended to replace the ordinance by an Act of Parliament. The amendment was to permit acquisition of land by the Government for companies provided "such acquisition is needed for the construction of some building or work for a company engaged or to be engaged in an industry which is essential to the life of the community or is likely to promote the

economic development of the country". Thus there could be no doubt that the amendment gave the Government sweeping powers to acquire land for a company engaged almost in any industrial activity.

### **No Improvement**

HOWEVER, in the face of criticism in the Lok Sabha the Government accepted a compromise and moved a fresh amendment that the acquisition of land would be made only when "such acquisition is needed for the construction of some building or work for a company which is engaging or is taking steps for engaging itself in any industry or works which is in the interests of the general public". This amendment, while it clipped the powers sought to be conferred on the Government under the original Amending Bill, was still not acceptable to the Members who complained that acquisition "in the interests of the general public" was not restrictive enough and that it was subject to interpretations which could still give the Government too extensive powers. Ultimately, the Minister for Food and Agriculture had to accept another amendment proposed by Shri H V Kamath stipulating that the Government shall acquire land only for a company which is engaging in an industry or work which is for a "public purpose" and not merely "in the interests of the general public". Two other modifications made in the original Bill deserve mention. In the first place, the Government has accepted that it would acquire land under the Act only for public limited companies and not for private companies. Secondly, it is proposed that the rules framed by the Government under the Act would be laid before both Houses of Parliament for approval. The Houses would thus be empowered to make modifications in these rules. This is presumably intended to ensure that the Act is uniformly applied in the different States and that the provisions of the Act are not misused by the State Governments, a fear which not a few Members had expressed

However, the most significant amendment of the Bill is the one which restricts acquisition of land to companies which are engaged in an industry or work which is for

a "public purpose"; how is this different from acquisition of land for some work "which is likely to prove useful to the public", which is the condition attached to acquisition of land by Government for companies in the original Land Acquisition Act of 1894. Apparently the Members were so overwhelmed by the concessions made by the Minister that they did not pay adequate attention to the import of these concessions and the one or two lone voices which asked for an elaboration of the term "public purpose" went unheard,

The purpose of moving the Amending Bill to the Act of 1894 was to broaden the conditions governing the acquisition of land by Government for companies and to make them less ambiguous. The Amending Bill as it was finally passed by the Lok Sabha did not really achieve this purpose. Shri S K Patil is perfectly aware of this as is clear from his statement\* that he intends to soon introduce in Parliament "a comprehensive amending bill" to the Act of 1894.

### **Dearly-Bought Sweetness**

THERE is something intellectually dishonest about the way the Government handles the sugar problem. The Planning Commission goes on shouting that they wish to maintain the juice level. Members of Parliament would not let their voters, the cane-growers, suffer by reducing the price of sugar-cane, and Ministers dare not oppose the powerful sugar mill-owners' lobby which insists that sugar prices must be maintained or *increased*, if the industry is to keep its head above water,

Now there is no doubt that everyone cannot be satisfied. If it is desirable to bring down the prices, at least in the case of sugar, it should not be difficult. Last year, production was 3 million tons and there was a carry over stock of 400,000 tons from the previous year, out of which consumption and exports were approximately 2.2 million tons, leaving a carry over of about 1.2 million tons. This season, production is expected to be around 2.7 million tons, consumption around 2.4 million tons and exports around 300,000 tons, still leaving a carry over of 1.2 million

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