# Social Accounts For a Backward Economy

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IN the course of the following paragraphs, we will consider some of the specific issues connected with our sectoral division covering the transactions in the subsistence part of our economy. The problems to be discussed will be mainly of an accounting nature, though they would be relevant in terms of the broader economic considerations mentioned in the preceding section. We will concern ourselves only with Sector S, since the treatment of other sectoral divisions will be exactly the same as in an advanced economy.

Sector S would consist of household entities. These arc the traditional units of social organisation and in their social content they art-organised units of final consumers. This is their universal character but in the case of backward economy, they also act as producers, mainly engaged in all types of primary production and in some cases they undertake secondary production, though on a comparatively smaller scale. In order to obtain a comprehensive and accurate picture of the economy, we will require their accounts to cover the whole of their activity both as producers and as consumers.

If, however. Sector S is to cover all activity of household as final consumers and also such part of their productive activity as involves no proprietory interest of any outside person, the scope of the new sector would be too large. This would be unsatifactory on two counts. Firstly, a significant part of what would thus go into Sector S could be more appropriately included in other sectoral divisions. In fact, the inclusion of such items as village money lending, retail trading or large scale farming in the scope of the new sector would give it, qualitatively, a more composite character than is really necessary. The exclusion of these and similar items from the new sector would give the remainder a qualitative homogeneity, which is desirable both for the definition and the measurement of the contents of any division.

When a household combines in itself the functions of a producer and a consumer, there are usually three points at which the two activities come in close contact and the respective accounts get mixed. The first is location; that is to say the place of residence and the place of business arc the same and to that extent, the accounts become difficult to separate. Secondly, there is employment of unpaid family labour; such labour is not only not paid in any formal manner but it is almost always engaged on very irregular and ill-defined terms and conditions of work. Particularly, when work is carried on at the same place as the place of residence, this irregularity assumes extreme forms and evaluation and measurement of family labour employment becomes extremely difficult, if not impossible. The third point is the home consumption of own-produce without any formal accounting. If a household runs an enterprise where these points of contact are avoided or at least if they can be separated in the accounts without resort to complex and doubtful imputations, there should be little difficulty in constituting such an enterprise into a separate producing entity and allocating it to the appropriate sectoral division. Similarly, if there are households which are not engaged in any productive activity whatever and are final consumers only, their appropriate placing would be in Sector IV, viz:., Final Consumers. The subsistence sector would thus consist of those households whose productive activity cannot be separated, in an accounting sense, from their activity as consumers.

We shall not consider the type of accounts that a house-hold would keep. Even though the distinction between consuming and producing activities of the household is not sufficiently clear to warrant their separation into two accounting entities, attempt must obviously be made to obtain the distinction, as far as possible, by means of separate accounts within the same accounting entity. In Sector S, we will have, therefore, four types of accounts which might be termed the operating, the capital, the revenue and the reserve accounts. The first two will cover the activities of households as consumers while the last two will cover their activities as final consumers. The operating and the capital accounts will be the same as for other productive enterprises treated in Sector I of the traditional arrangement, with the only difference that we shall not have an appropriation account; all other receipts of the households such as wage payments, etc. will be credited to its revenue account. We shall also not have the reserve account in the same sense as in the usual arrangement. Here the reserve account will appear as the capital account of the household as final consumer.

The operating account of a household relates to all current activities undertaken as part of its productive enterprise which inevitably is a very mixed affair. It would be desirable, if it were at all possible, to set up separate operating accounts for the several branches of activity. But the mixing up of various productive activities in the same household is so complete, that any attempt to disentangle the accounts into its constituent units would involve us in absurdly complicated imputations. It is proposed, therefore, to treat the entire productive activity of the households as one-single enterprise. As a consequence, it will not he possible to classify the national product in the household sector by branches of activity. For certain purposes, it may be sufficient to use a classification of branches of activity with the main activity and the households could be classified by their principal productive activity.

In the working system of social accounts for an advanced economy, three types of transactions are distinguished, *viz.*, real transactions, nominal transactions and transfers. In such an economy, transactions in money are dominant and the first two types refer to transactions in which money passes for something real and nominal, respectively. In a backward economy, not everything is exchanged for money and there are numerous transactions in which something real is exchanged without the intervention of money. Such transactions are an integral part of a backward economy and in order to know the relative dimensions of the monetary and non-monetary transactions, it is necessary to recognise two kinds of real transactions; a cash transaction in which something is exchanged for money and a barter transaction in which exchange occurs without the intervention of money. We will, there fore, have four types of transactions —barter, cash transactions, nominal transactions and transfers. Of these, the last three do not need any discussion here, since they appear in the accounts of an advanced economy.

It is possible to consider barter as a sale from one end and purchase at the other end with hypothetical intervention of money. The accounting procedure becomes somewhat simpler if we regard barter as purchase from both ends. For instance, let us suppose that fodder is exchanged for foodgrains for home consumption. The transaction is not considered as a sale at either end and hence the operating accounts of neither parties show receipts under sales receipts. The ' purchase ' of fodder would be debited to the operating account of the farmer making the purchase, while his capital account would be credited. This may be done by means of a transfer from the operating to the capital account in respect of inventories taken over. On the other hand, as the foodgrains were supposedly obtained for home consumption, the ' purchase ' should be debited to the revenue account of the person concerned, at the same time crediting the reserve account by means of a transfer in respect of inventories taken over. In a sense, this treatment accords more nearly with facts, since barter is essentially a double coincidence of wants.

There are two situations in which this procedure becomes a little unrealistic. One is barter between goods and services; and the other is the payment in kind to factors of production. When rentals are paid in kind, as they are in the case of share rentals, or when certain communal services are paid for in kind, as they are in the traditional village economy, we have a case of barter between goods and services. Particularly in the cases just cited, the treatment of barter as a purchase at both ends becomes very far fetched. Share rents are often as big as half of the total produce and when allowance is made for the numerous payments in kind which a cultivator has to make, the landlord has often as much saleable surplus as the cultivator, if not more. The same is true of traditional remunerations received in kind by the artisans and others for services rendered. Even when the receipts are not very large, they serve as money in the sense that they are used for purchasing requirements like salt, etc. It appears, therefore, that these transactions are genuine cases of sale on one side and purchase on the other. The barter payments for factor services, either in part or in whole presents a similar problem. Factor payments in kind, *i.e.* wages in kind or interest payments in kind, are fairly frequent and to treat them by means of imputations would involve serious complications. The procedure we have adopted in our modified accounts is to take over to the reserve accounts the value of these two types of barter payments and to make withdrawals therefrom to the operating and the revenue accounts for specific purposes. The details of this procedure would become apparent when a working system of accounts is presented as in the next section of this paper. At this stage, it is sufficient to note that this procedure docs not involve any startling change in the normal practice. The function of capital accounts is to deal with the changes in inventories and it is by a fuller exploitation of this function that we propose to accommodate barter transactions in the accounts.

In connection with the treatment of transactions to be kept distinct, another problem arises, namely, that of transactions occurring within the entity. These might be distinguished firstly according as they are between two accounts or within a single account of the entity. Thus home consumption of product, when it is in the nature of final consumption, is a transaction between the operating and the revenue accounts. On the other hand, when consumption occurs as in the process of production, it is a transaction within the operating account. Another distinction is that between actual transactions. i.e, those which physically take place, and transactions that arc imputed for consistency in accounting procedure. Thus when fodder is fed to the cattle, it is an victual transaction. On the other hand payment of wages to family members is an imputed transaction. Now a decision is necessary as to which of these transactions should appear in the accounts and which might be neglected altogether. As a general principle it appears necessary that all transactions, whether actual or imputed. between two accounts should be recorded. On the other hand, there is an obvious choice regarding internal transactions, that is transactions within an account. Between the two alternatives of either making all of them appear or neglecting them altogether, there is a third choice of recording only the actual transactions while neglecting the imputed ones.

The matter is of some practical importance and might be discussed by means of a practical illustration, with reference to the operating account of a household. Let us consider two transactions, one imputed and the other actual. The first is the imputation of rentals to owner-cultivated land; the other is the feeding of home grown fodder to own livestock. The first is a matter of a location, of receipts to different branches of activity, as in this case, between farming and ownership of land. To the extent that certain receipts are credited to land, they will appear as costs of farming. In practice, such allocations of receipts and costs are difficult to handle statistically and unavoidably involve cost accounting procedures. Il we proceed with them and go to the logical extreme, we shall be really trying to separate the accounts of the different branches of activity within the enterprise. This, we have decided not to do. Such imputations are, therefore, best not made. The rentals to be imputed will in any case appear as part of the operating surplus of the complex enterprise.

The other transaction, *viz.*, feeding of home grown fodder to own livestock, is an actual transaction, but fundamentally, not on a different looting Once it is decided to treat all the productive activity of the household as a single enterprise, the home grown fodder fed to own livestock or the home-yard manure put into the home farm, are no more than intermediate products and are essentially of the same nature as materials in process. They might, therefore, with some justification, be altogether omitted "from the accounts. It is obvious that such omissions would not affect the operating surplus of the complex concern. On the other hand, they are material transactions and if we deride to enter them on both sides of the operating account, there would be no serious difficulties of imputations. Their recording brings the accounts more in accordance with the fact of the situation, giving an explicit statement of the economy in operation and might help in ensuring complete enumeration of the product. We might, therefore, agree to record all transactions within the household enterprise when they are quantitatively measurable and do not involve problems of imputation, and particularly of cost accounting. It should be clearly understood, however, that this docs not make it possible to separate the accounts of the constituent branches of activity. The measurable transactions are almost always in the nature of one branch consuming material products of another branch and form only part of the transactions between different constituent brunches. There remain many others which without some principles of imputation, often arbitrary, and elaborate cost accounting, cannot be recorded. They are, therefore, as decided above, best avoided.

It is perhaps important to be clear about the effect of remitting transactions within a productive enterprise. In the first instance, it should be noted that their omission is merely the logical consequence of the decision not to recognise branches of activity within an enterprise. From such a combined account, it is really not justifiable to try to work out the production costs of single items of product of the enterprise. But if that is done, and there is apparently sufficient temptation to do it, the cost of single items are under-estimated. Thus, if it is decided to disregard both home grown fodder and farm-yard manure to the extent that they are consumed within the enterprise, the home grown fodder would not appear as an item of cost in the livestock products and so also would not the farm yard manure appear in the costs of farm products. In other words, single items of products would represent larger net values added per unit to the national product than they in fact do. The national aggregate, is, however, not affected as the overestimation of net values added per unit is compensated by underestimation of quantities of single items to the extent that they are consumed within the enterprise. For instance, if the sales proceeds in such accounts are classified by commodity, quantities of commodities, such as fodder and manure, would be underestimated to that extent. This seriously distorts the facts of actual production. It is to avoid the picture being seriously distorted in this manner that it is desirable to record transactions within the enterprise when that is feasible.

This brings us to the final point in this discussion, *viz.*, imputation of wages to family labour. It is conventional to treat persons not as part of business equipment and regard payments to them as payment to factors of production which are receipted to the revenue account of persons. It is not impossible to adopt this procedure and impute wages to family labour which will be debited to the operating account and credited to the revenue account. The imputation might be made by means of two alternative procedures. In one case the family members are treated as hired labour and to them are imputed wages at rates payable to hired labour for the number of days they actually worked in the household enterprise. Alternatively, they might be treated as labour under permanent or long term contract and then might be paid annual wages at rates payable to the labour under annual or long term contract. By imputing wages at rates payable to hired casual labour, the family labour is likely to be remunerated at rates unduly high; for no allowance is made for the fact of an assured employment or for preference in being employed when work is available. In this respect family labour is more akin to labour under annual contract but it differs from the latter in that while labour under permanent contract is usually kept fully employed, family labour often enjoys considerable leisure. Al any rate, not all family members do the same amount of work as is done by hired labour under annual contract. Some members of the household work during peak periods only when labour is short.

Further complication is introduced by the fact that often members do not engage themselves full time in the household enterprise because it does not afford sufficient employment. In such cases. they work outside and earn wages. Now it is obvious that if the members are to be supposed to have been employed under an annual contract and if to them are to be imputed wages at annual rates, their earnings from outside should be credited to the operating account and not the revenue account of the household. In other words, the family members are to be regarded as part of the productive equipment of the household. This is contrary to accepted notions, for it results in not accepting anything in the nature of final consumption. It appears, therefore, that family labour will have to be imputed wages on the basis of days when they actually worked in the household enterprise. It is equally obvious that the imputed rates must not be those payable to casual labour. Wages to family labour might, therefore, be imputed for days of actual work only at. average daily rates which a person employed under an annual contract would receive per day when he actually worked.

If wages could be imputed to family labour on some such principle as put forward above, these would of course be debited to the operating account and receipted to the revenue account of the household. The content of the operating surplus in that case would be precisely the same as that of a productive enterprise treated in Sector I. However, the problems of measurement involved in the procedure! suggested above are considerable. In particular it is difficult to impute wages for work which is commonly done by family members only. We have, for example, the case of the housewife collecting firewood or children, who are perhaps good for no other job, tending the cattle. Numerous activities appear which must be regarded as gainful but their evaluation and formal imputation of wages would be too artificial. The alternative, therefore, is not to impute any wages to family labour. When members work outside and earn salaries or wages, they would of course be credited to the revenue account but for their work done in the household enterprise, nothing would be credited to the revenue account. Remuneration to family labour, therefore, could appear as part of the operating surplus. This procedure fundamentally changes the character of the operating surplus and places the household enterprise on a footing different from that of the productive enterprises treated in Sector 1. But that is a fact of subsistence economy and it is best to recognise it in the system of accounts. The so-called enterprise is not so much of a business proposition as a way of life and the operating surplus is no more than a source of receipt available for expenditure. The family members are a charge on the enterprise and, what is not often realised, in its bad days the enterprise is a charge on other resources of the household. We propose, therefore, that to the extent that their labour enters the family product, no attempt should be made to separate the family members from the enterprise. They should be treated as an integral part of it and their remuneration should appear as part of the operating surplus.

In the final section, we will set out and discuss the scope and content of the four accounts in the subsistence sector. The illustrative .accounts are, of course, based on the discussions contained in this part and their function is only to make our conclusions a little more concrete.

*(To be continued)*

***Cotton Market***

# More Nominees Appointed

*Thursday. Morning*

THE cotton situation in the country is being watched anxiously though no major change in the general conditions of supply and demand has come to light. Crop ideas in the Broach and Surat regions have been slightly reduced by 70,000 bales in view of the fact that due to absence of dew, the growth was affected. As pointed out on the last occasion, the sale, delivery and movement of cotton in Karnatak, Madras and North Gujerat has been brought under control and these areas have been sealed off. With this fresh measure, almost all the important cotton areas, except Madhya Bharat, have been covered under the scheme of collective purchases through Government nominees to whom only any person can sell or deliver cotton of the current season 1950-51.

With the appointment of two more nominees, the total number of nominees in the Broach district now amount to 29.

The principal cottons covered by the latest action of the Textile Commissioner are Westerns, Karunganni, Cambodia, Rajpalayam, Dholera, Kumptas, Jayawant, Laxmi and Jaidhar.

In North Gujerat, all types of cotton, except ' Vijay,' grown in the area comprising the Ahmed a bad, Mehsana and the Sabarkanta districts are to be sold or delivered to the Ahmedabad Cotton Dealers' Association.

In Karnatak, cotton grown in the area comprising the South Satara, Bijapur, Belgaum and Dharwar districts is to be sold or delivered to 39 nominees.

The Madras ' A ' and ' B' zones have been sealed off and movement of *kapas* or cotton has been prohibited. In the three areas, 18, 15 and 15 nominees respectively are to be appointed and the names of these nominees will be announced later.

The scarcity of raw cotton will hamper mills' activity to a certain extent but the supply situation is expected to improve after right months. It is to be noted that in the United States and more specially in Egypt, new crop futures stand at very substantial discounts under the nearer deliveries, suggesting that the markets expect supplies to be larger next season.

So far Indian mills have evinced little interest in Pakistan cotton but for next season's crop, business of a few thousand bales has been reported at a discount of Rs. 30 per maund from the current levels.

Any way, the supply position of cotton throughout the world next season will definitely ease and prices are 'expected to come down. However, the Government of India would do well to decide its cotton policy in advance of the season. The best way to augment cotton production would be to decontrol it entirely as it is apprehended that the present form of control would lead to several maladjustments and affect even the quality of the crop.

The export quota of two lakh bales of US cotton upto the end of March 31 has been utilised by India. Whether any fresh quota will be declared by US for the current season's crop, remains to be seen. The US Census Bureau reported 1950 crop ginnings at 9,288,947 running bales against 15,908.591 bales in 1949. Current crop months in the New York Exchange remain at the highest level since the market reopened but new crop futures are easier with a discount of 4 to 4¾ cents from the old crop contracts. The fervour to buy new crop American cotton stapling 1½8" and above has continued unabated. It is estimated that mills in India have bought about 1,75,000 bales at 9.50 to 8.125 cents ' on ' December delivery for November-December shipments. This business is subject to export and import licenses being granted by Governments of the respective countries.

As for superfine varieties, mills were interested in Sudans and Karnaks but the discouraging behaviour of the Alexandria market during the last few days has induced cautiousness among mills for making large commitments. Good Karnaks were not freely available but mills bought Karnak type 163 around Rs. 3,950 for prompt shipment. The recent weakness of the Alexandria market, despite the strong statistical position, is attributed to some unloading of ready cotton by UK Raw Cotton Commission against purchases of new crop at substantial discounts. The Land Tax as well as the breaking up of the partnership of prominent firms of cotton dealers, were the contributory factors.

In view of the attractive price for Laxmi certified (Karnatak), large business was done around Rs. 1,875 to Rs 1,9000 C.P. Jarilla which is quoting over the ceiling was well enquired after. In Madhya Pradesh, stocks with nominees are fairly large as some of the mills have not absorbed their allotted quotas so far. In the Broach and Surat zones, the nominees in their anxiezy to secure buying orders have been sacrificing part of their commission. Stocks of about 3.500 bales of Surat certified cotton have been frozen but the producers feel that as in Dharwar and Khandesh, this cotton should be allowed to be marketed without any control being imposed. They believe that the move to pay only Rs. 20 over the ceiling price is unjustified in view of the free policy adopted elsewhere.

The Pakistani cotton market after early spurt has turned quiet due to lack of fresh export business and the increase in the sales tax, though 289 and Roller Ginned was better at Rs. 163. 4F has fluctuated between Rs. 141 to Rs. 144 and L.S.S. at Rs. 148 to 151 and N.T. Rollers at Rs. 147-8 to Rs. 151-8.

The possibilities of decontrol of superfine cloth are discussed in trade circles in view of the rise in Egyptian and Sudan cotton prices. The Cotton Textiles Control Committee is meeting in the City on April 4 and it is understood that the position will be considered in all its bearings.

The world's cotton crop for the current season 1950-51 is placed at 2,73,50.000 bales as against earlier estimate of 2,69.25,000 bales. Production estimated country wise is as follows:

(In Bales)

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|---|---|
| U.S.A. | 98,84,000 |
| Russia | 33,00,000 |
| India | 27,00,000 |
| China-Manchuria | 25,00,000 |
| Egypt | 17,30,000 |
| Brazil | 15,00,000 |
| Mexico | 11,10,000 |
| Pakistan | 11,00,000 |
| Argentine | 6,50,000 |
| Turkey | 5,00,000 |