

# More on the Ambar Charkha

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I READ with interest "A Note on Surpluses and Forms of Production" by Shri Amlan Datta (Economic Weekly, November 2, 1957) and "A Short Note on the Ambar Charkha—A Comment" by Shri D Shenoy (Economic Weekly, November 16, 1957). I shall try to examine in this note whether Shri Datta's and Shri Shenoy's comments on my treatment of the Ambar Charkha (Economic Weekly, October 19, 1957) are acceptable.

## Amlan Datta's Objections

Shri Datta argues that "the marginal cost of employing labour in a family-based industry is next to nil: under the joint-family system, a family member has to be fed even when he sits idle, and does not have to be fed very much more when he is set to work." This seems to involve the assumption that the marginal propensity to consume of the joint family is negligible, so that even when its income goes up, thanks to the earning from the new family-based industry, it does not increase its consumption appreciably. I do not quite see on what grounds Shri Datta suggests this. I am even less sure how this assumption is reconciled with his suggestion that when a part of the rural unemployed population finds other productive work (not family-based), the consumption of the joint family may go up by the full amount of their additional income. "When such people find more productive employment, it is not uncommon for the consumption of the basic social unit, viz, the joint family, to go up by the whole, or nearly the whole, amount of the newly accruing income". This assumption of the propensity to consume of the joint family being nearly one, seems to contradict his assumption that it is nearly nil in the case of the additional income accruing to the joint family from cottage industrial occupations. Actually one would expect that the additional consumption resulting from the Ambar Charkha operations should be nearly equal to the additional earning of the Ambar Charkha workers.

## Earning and the Subsidies

The question therefore is what is the additional earning of the Ambar Charkha workers. One would think

from Shri Patta's remarks on the Ambar Charkha that he is assuming that the additional purchasing power created in the rural area as a result of running the Ambar Charkha is equal to the value added by it and not more. This obviously excludes the large amount of subsidies that have to be paid to the Ambar Charkha workers. It is because he neglects these subsidies needed for running the small scale enterprises that Shri Datta can make the general observation that "while under the factory system the employment of more labour per unit of capital will only be justified from an accumulation point of view so long as the marginal productivity of labour is not below the current wage rate, in a family-centred production unit almost any level of marginal productivity justifies employment so long as it is a positive level." This is so only if there are no subsidies. And in the case of the Ambar Charkha, the importance of the subsidies is not unknown.

## The Necessity of Subsidization

At this point Shri Datta may well ask why must we pay subsidies to the Ambar Charkha workers? The answer seems to be simple. If my calculations are correct, given the market prices, the net value added per worker per day (8 hours) is less than two annas. As I tried to suggest in my note, even in a country as poor as India, it is doubtful whether any one would put in 8 hours of hard work (and Ambar Charkha operation is hard work) to earn less than two annas. The Ambar Charkha programme originators were quite correct in deciding that if you want to have the Ambar Charkha you must pay the workers subsidies. And of course when subsidies are paid, the problem of negative surplus comes in. We found in our note that the Charkha workers had to be paid subsidies (direct or indirect) of more than seven annas per day to make them enjoy a wage of nine annas per day (i.e., one and a half annas per hank of yarn, six hanks being the daily output). This term "wage", I agree with Shri Datta, may be a bit confusing in this connection as there may not be any wage payment proper. If Ambar Charkha operations are organized in family-based units. I followed, how-

ever, the Report of the Ambar Charkha Enquiry Committee in using the term wages to mean the monetary earning of the Charkha workers through the value produced and the subsidies received. Leaving out the question of terminology, the economic point is that in order to provide nine annas of money income to Charkha workers per day we have to pay them enough subsidies (direct or indirect) to lead to a rate of surplus per unit of capital of minus 276 per cent. This calculation may of course be defective, but its defect does not seem to be the one Shri Amlan Datta has pointed out.

## D Shenoy's Objections

Shri D Shenoy has made three main points. First, if the rural population saves a part of the extra purchasing power they get, the excess of the marginal induced consumption over marginal production may be less than I suggested; in fact there may not even be any such excess. With this proposition put in this conditional form I have no quarrel, though I doubt, as I have already mentioned, whether much will in fact be saved by the rural population. Actually the need for subsidizing the income of the rural population would have been less if we thought that they were going to save the extra income anyway. Besides, there will be no excess of extra consumption over extra production only if the rural population consumes no more than 1 anna and 8 pies (— value added) out of their extra income of 9 annas, which involves the assumption of a very low propensity to consume indeed.

Shri Shenoy's second point is that even if the Ambar Charkha produces this gap of consumption over production, "the conclusion of Shri Sen may not remain valid, as it is possible to meet the cost of subsidy by taxing the meretricious consumption of other classes of the society". My conclusion however was not that the deficit produced by the Ambar Charkha cannot be met, but that it did produce some deficit which has to be met. Even if the subsidies are met by taxation, we have to remember that the resources released through those taxes could have otherwise been used for investment purposes had there not been the Ambar Charkha gap to meet.

Finally, Shri Shetioy argues that while the Ambar Charkha workers may be employed in an Inefficient manner they are contributing something to the flow of output. "Is it not advisable for labour to produce something, even though it may mean increase in his consumption more than in proportion to his contribution to the flow of output?" Shri Shenoy's last point is that over a conscious choice like this, "an economist qua. economist cannot sit in judgement".

Whether we should have Ambar Charkha production even if It leads to an inflationary gap of marginal demand over marginal supply is, I agree, a matter of value judgement. And while I often feel that to make too much of the distinction between an economist qua economist and an economist qua owner of value judgements is being somewhat schizophrenic, in my note on the Ambar Charkha I took particular care not to make any value judgements. Shri Shenoy will find, if he looks again at my note, that I concluded my study not by suggesting that the Ambar Charkha programme should be abandoned but by mentioning only that the net value added per worker per day (8 hours) was less than two annas, that it would create a considerable inflationary gap and that it would affect capital accumulation adversely, in fact tend to lead to capital contraction rather than capital accumulation. If from this someone comes to the conclusion that the Ambar Charkha is a bad thing, may I suggest that it is a matter of his value judgements, not mine?

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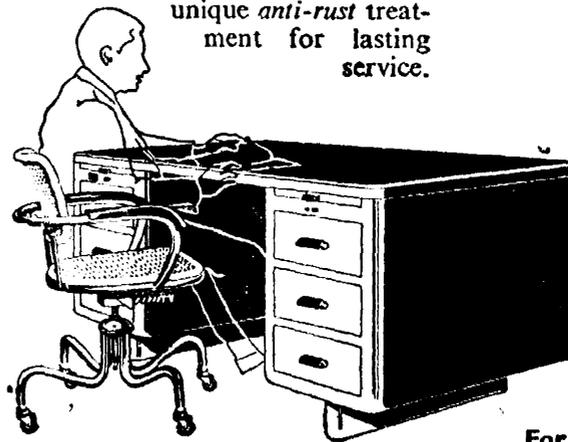
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