III. Economic Policy and Measures

28. It has been quite clear for some time that the development programmes under implementation were causing an excessive strain on the economy and that it was necessary both from the point of view of internal price stability and of a more viable position on external account to take effective steps to correct the imbalance. In the White Paper of March 1957, the steps already taken in fiscal, monetary and foreign exchange fields were reviewed. It was emphasized that the problem was not one of correcting some kind of an accidental or temporary disequilibrium that had somehow arisen, but of increasing production, especially food production, and of generating sufficient savings in the economy continuously to support the accelerating investment programmes envisaged in the Plan. Inevitably, these programmes have themselves to be adjusted to an extent, in order to lessen excessive strains in the immediate future. The adoption of suitable current policies and the question of adjustments in the plan are thus two aspects of the same problem.

29. In the economic situation, such as has been outlined in the paragraphs above, fiscal policy has to be directed to the maximum mobilisation of resources for financing the plan. Considerable fresh taxation was undertaken in 1956-57. The budget for 1957-58 enhanced taxation further so as to yield about Rs. 103 crores in a full year; it also initiated certain changes in the tax structure so as to make it more capable, over a period, of meeting the needs of development. The outturn on revenues and the revised estimates of expenditure—and of the deficit—for the year are being made available separately. Only two points need to be stressed in the present context: (i) that part of the resources raised by the Centre last year has been transferred to the States as a result of the Finance Commission's award; (ii) that the resources available in the form of public savings are still short relatively to the requirements. While the full yield of some of the tax measures adopted in 1957-58 will come hereafter, it is clear that these measures have assisted materially in keeping down inflationary pressures and in creating a new awareness in the country of the effort and sacrifices that have necessarily to go into a development plan.

30. The high levels of investment in the economy and the large step-up in imports have strained the resources of the banking system. The Reserve Bank has had to balance carefully the genuine requirements of a developing economy and the dangers of cheap or excessive credit. While credit has been made slightly dearer by raising the bank rate by ½ per cent, the line of policy has been to regulate advances in particular directions so as to prevent speculative holding of stocks. Selective credit control is a comparatively new technique in India. Its efficacy has steadily improved. The Reserve Bank has, besides issuing directives in regard to the level of advances against particular commodities, also advised banks in the matter of the appropriate level of their total advances. While, as mentioned earlier, the tightness in the money market has abated of late, credit expansion has necessarily to be kept within limits. The plan requires all the resources that can be mobilised; there cannot in this situation be any general easing of credit restraint. Regulation of credit, both in respect of amount and of the broad pattern of utilisation, is an integral—and continuing—element in developmental economic policy.

31. In the field of foreign exchange, a progressive tightening up of import policy has taken place since January 1957. In June last, it was decided that the licensing policy should hereafter be related

to the fiscal year rather than to the calendar year in order to ensure better co-ordination between the internal resources budget and the external resources budget. To facilitate this transition, the announcement of policy this time was with reference only to the quarter, July-September 1957. The Open General License (except for poultry, fish, vegetables, etc. from Pakistan) was discontinued; instead limited quotas in respect of essential commodities were granted to importers on the basis of their actual imports between 1952—56. No fresh licenses were issued in this period to Established Importers and the conditions for issue of capital goods licenses on a deferred payment basis were made more stringent. The policy for the period October 1957—March 1958 placed further licensing on a strict austerity basis, the imports of consumer goods being cut drastically and that of raw materials and intermediate products being limited to the minimum necessary for the 'maintenance of the economy'. Capital goods licensing continues to be confined to the highest priority programmes and to those foreign exchange earning or foreign exchange saving programmes for which deferred payment terms or foreign participation to the extent of the foreign exchange required are available.

32. The total of import licenses issued (except for jute which is licensed on a quantity basis) came down from Rs. 631 crores in the second half of 1956 to Rs. 424 crores in the first half of 1957. For the period July-September 1957, the licenses issued fell further to Rs. 131 crores. In this period, there were no fresh licenses issued to Established Importers, except that for commodities formerly under O.G.L., limited quotas were granted. In the three months, October—December 1957, the licenses issued totalled Rs. 227 crores.

33. The full effects of the stringent import policy already adopted will be felt hereafter, but there has already been a noticeable reduction in the drafts on the foreign assets of the Reserve Bank. In the quarter April-June 1957 the foreign assets of the Reserve Bank went down by Rs. 108 crores; the fall was Rs. 100 crores between July and September. It came down to Rs. 54 crores for the period October to December. The rate of decline in January 1958 was Rs. 2·9 crores a week as compared to about Rs. 9 crores a week in June-July 1957. The fact, nevertheless, remains that the further requirements of foreign exchange for the priority projects in the Plan are large. The United States has recently agreed to make $ 225 million available as loans—$ 75 million from the Economic Development Loan Fund and $ 150 million through the Export Import

Bank. An agreement with Japan for deferred credits amounting to 18 billion yen has been signed. Germany has agreed in principle to the postponement of payments due in respect of the Rourkela project, and negotiations to finalise these and possible further credit arrangements are proceeding. France has signed an agreement to facilitate the financing upto a limit of 25 billion Francs of orders for capital goods that may hereafter be placed with that country.

34. The total of external assistance authorised since the Second Plan commenced to the end of December, 1957 comes to Rs. 480 crores. This does not include the $ 225 million assistance from the U.S.A. referred to in the paragraph above; nor, the credits from Germany, Japan or France. The utilisations of external assistance is estimated at Rs. 96 crores in 1956-57; for 1957-58, the utilisations are expected to aggregate to Rs. 130 crores. There is also a carry-over of about Rs. 130 crores from the authorisations of the First Plan period, but allowance must be made for the fact that some carry-over from the authorisations of the Second Plan period into the future is to be expected.

35. The need to conserve foreign exchange with the utmost care will persist throughout the plan period. Every effort will have to be made to promote exports; the sacrifice this involves in terms of domestic consumption is the price which has inevitably to be paid. Imports will similarly have to be restricted. This latter carries the risk of domestic production being slowed down in particular sectors. This aspect of the problem will have to be kept in mind while formulating import policy; there has to be a balance between the different types of imports permitted. It is clear that capital goods imports will have to be carefully regulated, in order that reasonable provision is made for ensuring the utilisation of plant and capacity already available or in the process of being set up and for safeguarding employment. Consumer goods imports will have to be kept down to the barest minimum.

36. Mention must be made in this connection of the fact that the substantial increase in the import requirements of the plan and therefore of the external assistance needed to meet the balance of payments gap has resulted in sizeable commitments by way of interest charges and of repayment of capital in the coming years. These, together with the further additions that may be made in the remaining period of the plan, will throw a heavy burden on the country's balance of payments in the period of the third plan. The

task of increasing exports has, therefore, to be viewed not only against the background of the immediate requirements but in the light of this continuing need to earn more foreign exchange hereafter to cover these liabilities—not to mention the further requirements for the investment programmes of the future.