IV. The Outlook

37. It is hardly necessary to emphasise that the inflationary pressures of 1956-57 and the earlier part of 1957-58 and the serious strain on the balance of payments are related mainly to the progressive rise in investment, both public and private, that has been taking place over the last few years. Capital formation in the public sector has been going up steadily in pursuance of the Plan; the rate of investment in the private sector has also been high. It is significant that the allocations for net capital formation at the Centre—including those for utilisation by States—amounted to about Rs. 600 crores in 1956-57 (R.E.) and about Rs. 743 crores in 1957-58 (B.E.) as compared to about Rs. 460 crores in 1955-56 (actuals) (*vide* Table IX at the end). While data on investment in the private sector as a whole are not available, a recent study by the Reserve Bank of the balance-sheets of some 513 major public limited companies shows that the addition to net fixed assets in these companies in 1956 was 18·1 per cent, which works out at about twice the annual rate of growth of net assets in the first plan period.

38. The Plan estimate of aggregate private sector investment was Rs. 2,400 crores over the five year period. It is unfortunately not possible with the data available to assess the actual course of development in relation to the total. In the organised industrial sector, investment (new investment plus modernisation) was estimated at Rs. 720 crores over the Second Plan period. For 1956-57, the available data indicate an investment of Rs. 135 crores. This is not excessive in relation to the five-year target envisaged, but it represents a step-up of about Rs. 50 crores as compared to 1955-56.

39. The trend of public investment in the coming years has necessarily to be upward. Private investment may, on the other hand, decline somewhat, partly because of the paucity of funds in the capital market and partly for lack of sufficient foreign exchange. Investment in the aggregate is, however, expected to maintain an upward course. Savings will have correspondingly to be increased.

40. It is evident that over the last two years voluntary savings have not kept pace with the increasing demand for them. This explains the persistence of inflationary pressures through 1956 and the first half of 1957. There has been a relative improvement of late, and there are signs of some slackening of demand in a few lines. Undoubtedly, the fiscal and monetary measures which have been adopted in the course of the last eighteen months or so have contributed to the correction of inflationary pressures. But the main factor which has counteracted the expansionary effects of the rising investment expenditures in the economy has been the large balance of payments deficits financed by a drawing down of foreign exchange reserves. It is this draft on past savings that has hitherto acted as a cushion. The need now is to keep down imports and to increase exports, to secure a steady flow of investible funds from abroad and to reduce the foreign exchange gap to the level of resources that can be mobilised in these ways. Foreign exchange reserves at the end of January 1958 stood at about Rs. 285 crores. The scope for drawing them down further is severely limited.

41. An export drive and a stringent import policy involve, *ex hypothesi,* a reduction in domestic availabilities. This would tend to raise prices. It is particularly important, in view of the primacy of foreign exchange considerations, that the creation of fresh purchasing power within the system is not in excess of the available supplies of goods and services. The creation of credit for financing the public as well as private outlays has, therefore to be kept within strict limits.

42. The outlook for prices for the coming year turns, as always, on the availability of foodgrains. The season this year has not been favourable and although the damage to the rice crop is not as large as it was originally feared to be, a sizeable shortfall is expected. The prospects of the rabi crop are not yet known. It should be noted, however, that with the output of foodgrains in 1956-57 at 68·7 million tons, it was necessary to import about 3·6 million tons in the course of 1957. The increase in Government stocks over the year is about 8 lakh tons. The rest has gone into consumption. Sizeable quantities of imports, some under P.L. 480, some on concessional terms from Canada and some under the five-year agreement with Burma are expected in the coming months. Various measures such as formation of zones, prescription of maximum prices, procurement in selected areas, issue of identity cards and registration of wholesalers in certain States have been undertaken in order to prevent prices from rising

unduly and to keep supplies moving. Credit control is also being exercised with a view to preventing hoarding. It is evident that in view of the foreign exchange situation, the imports of foodgrains have to be kept to the very minimum, and the needs of the country met more and more from increased domestic production. An increase in marketable surpluses, curbs on hoarding or wasteful consumption and suitable controls on distribution are thus the main objectives of food policy.

43. The conclusion is that despite the slight fall in prices in recent months and despite the relative improvement in monetary trends noticed above, the economic situation is basically one in which there is a continuous pull, on balance, in the direction of inflation. There also remains a sizeable gap in the foreign exchange resources required for the Plan. For maintaining price stability as well as for achieving a better balance in external account, an increase in savings, a continuance of fiscal and monetary discipline and of the efforts to secure external assistance, and an adjustment of developmental programmes so as to bring them into a more even relationship with available resources are called for. In a word, the economic policies that have already been initiated in these fields have to be continued.

44. The emergence of recessionary trends in the industrially advanced countries is a new factor which has a bearing on monetary and fiscal policy—including investment policy. While one cannot say how far the recession will proceed and when the trends will again be reversed, it is necessary to bear in mind that the impact of this recession is likely to be adverse in respect of our terms of trade. The fall in prices of primary products is apt to affect our exports more than our imports; import costs may not come down significantly, while our exports may have to face intensified competition in world markets. The danger of domestic demand falling off is, on the other hand, small; the Plan has an inevitable upward pull on demand. The continuance of a stringent import policy may, at the same time, reduce industrial output in some lines. On the whole, there is little danger of employment and incomes going down excessively, but the situation will need watching. Given the investment targets in the Plan—which provide, so to say, a built-in corrective—what may be called for is not any general relaxation in the matter of credit or fiscal policy, but action at particular points to safeguard employment and incomes.