VII *Economic Policy and Measures*

36. While, as stated earlier, the principal objective of policy in the context of developmental planning has been to ensure, as far as possible, the implementation of the Plan to the full, the emergence of inflationary pressures and of balance of payments deficits has, since almost the commencement of the Second Plan, necessitated the adoption of measures to diminish and correct the imbalance between the resources available and the demands on them. Fiscal policy has been directed towards the raising of more resources; monetary policy has aimed at preventing speculative holding of stocks, while permitting—and, within limits, encouraging—expansion in genuine investment; commercial and foreign exchange policy has sought to limit imports and encourage exports; and the plan outlays have been kept under continuous review. The various measures taken in the course of 1957-58—the substantial step up in taxes, the increase in the bank rate, the progressive tightening of import controls, etc. —were outlined in the last year's Economic Survey. The financial and economic policies of 1958-59 have been, by and large, a continuation of those initiated in the previous year.

37. The Central budget for 1958-59 made only a few adjustments in the tax structure; the gift tax was imposed, the Estate Duty Act was amended with a view to bringing about a better integration of the tax system, certain excise and export duties were modified, the scheme of compulsory deposit of company reserves was suspended, and the development rebate for ships increased. The accumulation of stocks with the cotton textile industry led to further reduction in the excise duty and a rationalisation of the structure of cloth excise during the year. Government also levied an additional excise duty on certain categories of mineral oils equivalent to the reductions in prices negotiated with the principal oil distributing companies in the country.

38. The monetary policy of the Reserve Bank has been one of permitting judicious and limited expansion of bank credit. While credit facilities to co-operative banks have been expanded, the regulation of advances has been continued with a view to keeping a check on price rises, especially of foodgrains, and the stress in open market policy has shifted from purchases to sales.

39. Import policy has kept up the rigour of the previous year. For the period April-September 1958, licenses issued amounted to Rs. 323 crores, that is, less than half the value of licenses issued in the first six months of 1956. Imports of consumer goods have been cut drastically, and the licenses for raw materials and intermediate goods have been given on the basis of estimated "maintenance requirement"—not always to the level of full capacity operation—of industries. The issue of capital goods licenses has also been reduced through application of strict criteria of essentiality

and foreign exchange saving. This has resulted in a substantial reduction in the licenses outstanding with the private sector. For encouraging exports, a number of fiscal and other incentives have been given; drawbacks of excise and import duties have been simplified, export duties reduced or abolished, export quotas increased and foreign exchange facilities, linked to export performance, have been granted for import of certain essential materials.

40. With the continuing drawals on the limited foreign exchange reserves in the early part of the year and the large payments falling due in the course of the year, the need for securing adequate external assistance assumed urgency towards the middle of the year. With the offer of about Rs. 172 crores of assistance by a number of countries as a result of the conference held in August last under the auspices of the International Bank and the authorisation of P.L. 480 assistance amounting to about Rs. 114 crores from the United States, the immediate needs of the economy have been met. Further assistance will be required to complete the core of the Plan, and efforts are being made to secure this.

41. The actuals of budgetary receipts and expenditure for 1957-58 and the revised estimates for 1958-59 are being presented separately. It is evident that internal resources have also not been coming up to the levels required. Although it has now been decided to limit the Plan outlay to Rs. 4,500 crores over the five-year period, it will be still imperative in the coming years to continue unabated the effort to raise domestic savings and to increase productivity.

42. Two main—and not mutually unconnected—considerations governing policy need emphasis in this context. First, price stability has to be maintained; and second, exports have to be stepped up to the best extent possible. The rise in wholesale prices since the Second Plan began has been of the order of 15 per cent, in spite of substantial import surpluses. Although it must be recognised that some rise in prices is inevitable in a developing country, and the rise that has occurred is in part due to special factors such as the shortfall in agricultural production in 1957-58, relative price stability is vital for orderly development. Basically, of course, the answer to the problem is a substantial increase in production, especially food production. But to the extent that the emergence of inflationary pressures is unavoidable in the course of implementation of development plans, there is need for curbs and countervailing action at various points.

43. The problem of increasing exports is a difficult one in the short period. Various steps towards export promotion have been initiated already, and continuing effort in this direction will be necessary. Here again, an increase in production is of primary importance. But no less important is the need to keep down prices and costs. In so far as domestic consumption comes in the way of an export surplus materialising, it has to be kept under check and the necessary sacrifice has to be made. But it has also to be borne in mind that mere reduction in domestic consumption does not help, if the surplus cannot be sold abroad at competitive prices. Price stability and a vigilant watch on costs are thus essential as much on considerations of internal as of external finance and viability. The fact that development calls for a progressive stepping up of investment over a fairly long period only highlights the importance of these considerations.