

VIII. Economic Policy and Measures

49. While economic policy in the short-run has necessarily to respond to emerging circumstances, its overall accent must remain on carrying forward the task of development as envisaged in the five year plans. The year under review has been the first year of the third five year plan; and in keeping with the overall programme of development outlined in the Plan, the Central and State Governments made a provision for a Plan outlay of Rs. 1,214 crores in their budgets for the current year. Actual expenditure on the Plan may be somewhat smaller. Even so, the outlay on the Plan during the first year would amount to some 15 to 16 per cent of the provision of Rs. 7,500 crores made for the Plan period as a whole.

50. As already mentioned, the Central budget for 1961-62 took a big stride forward in the implementation of the Plan target for additional taxation. On present reckoning, additional taxation already introduced at the Centre should yield over the five year period more than one-third of the tax target of Rs. 1,100 crores assigned to the Centre. Progress in regard to additional taxation by the States so far has been slower; but with greater efforts in the coming years, the target of additional taxation of Rs. 600 crores at the States should be within reach. Similarly, measures to promote savings will need to be intensified if the collections of small savings and market borrowings are to come up to Plan expectations. The new public sector projects which are expected to make a sizable contribution to the financing of the Plan had not by and large reached a stage when they could earn a significant profit; and here again, the basic task of making past investments pay for further investments will have to be tackled during the rest of the plan period by making an

efficient and expeditious use of the capacity already built as well as by rational pricing policies.

51. In response to the easy money conditions prevailing during most of the year, the emphasis in monetary policy was shifted from measures of restraint to a consolidation and strengthening of the banking structure. A number of measures of selective and general credit control were progressively withdrawn or modified. Thus, the additional reserve requirements imposed in March 1960 were withdrawn in January 1961 and the selective credit controls in respect of wheat, sugar, raw jute and jute goods were revoked in the course of the year and those against paddy and rice were modified. With the relaxation of control on advances against commodities, it became possible to withdraw restrictions on clean advances also. At the same time, proposals for the amalgamation of the smaller banks have been formulated in the wake of the bank failures in 1960 and a deposit insurance scheme has been introduced since January 1962. The banks have also been advised to enlarge their capital base by observing certain conventions which would ensure that their reserves are at least equal to their paid-up capital and that the ratio of paid-up capital and published reserves to total deposits is at least six per cent.

52. Despite the prevalence of comparatively easy money conditions, the earlier policy of raising the cost of credit to the banks by instituting a system of penal rates on scheduled banks' borrowing from the Reserve Bank above certain defined limits has been maintained so as to encourage economy in the use of capital. In the case of public sector enterprises, a balance between equity and loan capital is sought to be maintained and as part of the process of enforcing greater economy in the use of scarce capital resources, the rates at which government corporations can borrow from the government have been raised. Public enterprises in the States such as electricity undertakings as well as quasi-governmental bodies such as the port trusts and the finance corporations are being encouraged to meet their requirements in an increasing measure by approach to the market. At the same time, in keeping with the policy of reducing the high cost of borrowing in the unorganised sector, the Reserve Bank's lending to the agricultural sector and to the co-operative banks continues to be at preferential rates which are significantly lower than the Bank rate and the volume of such lending has been steadily increasing. More recently, with a view to providing an incentive to scheduled banks to increase their lending to small-scale industries and co-operative institutions, the Reserve Bank has extended to them additional borrowing facilities at the Bank rate.

53. Price policy, too, has been adjusted in response to the emerging conditions of stability without losing sight of long-term requirements. Thus zonal restrictions on the movement of wheat were withdrawn and the existing zones in respect of rice have been enlarged. Among other essential commodities, the prices of cloth continued to be regulated through voluntary arrangements with the industry. The floor price of cotton for the 1961-62 season was raised from Rs. 495 to Rs. 600 per candy in order to stimulate cotton production. In view of the record production and stocks of sugar, the price control on sugar was removed in September 1961. Similarly, during the earlier part of 1961 when jute prices were soaring, maximum prices for jute were fixed and dealers in jute were licensed under the Essential Commodities Act. More recently, when jute prices have declined sharply, a buffer stock scheme has been introduced under which mills in the membership of the Indian Jute Mills Association

have undertaken to regulate their purchases of jute so as to maintain orderly market conditions.

54. Among administered prices, the pool prices of fertilisers were reduced in December 1961 to promote the use of fertilisers. The retention prices of cement were revised in November 1961 and greater uniformity in ex-works selling prices was introduced so as to give incentives for higher and more efficient production. The question of the retention price of steel is at present under examination by the Tariff Commission; and in regard to coal, the differential in prices of superior and inferior grades has been widened to stimulate production of the better varieties. On the whole, while some control over the prices of basic investment goods (as well as essential consumer goods) is indispensable in order to maintain the competitiveness of our exports, it is clear that the administration of prices must also ensure an adequate increase in production. Equally, where a price rise at some stage in the chain of distribution cannot be avoided in view of the prevalent conditions of acute scarcity, and where such a price rise has no productive function to perform, it would be clearly advisable to divert at least a part of the rise to the exchequer. Changes in administered prices from time to time have been guided by the desire to maintain a proper balance between these various considerations in the light of changing circumstances.

55. In view of the persistence of balance of payments difficulties, import policy has continued to be restrictive. The value of import licences (excluding those for raw jute) issued during April—September 1961 was Rs. 471 crores; this compared with the issue of licences of the value of Rs. 477 crores during the first half of 1960-61. During the current half year so far (October—December), licences of the value of Rs. 221 crores have been issued as compared to Rs. 214 crores in the corresponding period last year. By and large, licences for the import of raw materials and components have been continued at previous level in order to sustain the tempo of domestic production whereas consumer goods licences have continued to account for a small fraction—less than three per cent of the total value of licences.

56. In the ultimate analysis, an enduring improvement in export earnings presupposes a steady increase in production and productive efficiency and an effective restraint on domestic consumption. Since these objectives of enhancing productivity and savings lie at the very heart of developmental planning, the successful promotion of exports is at once a measure and a consequence of all our planning efforts. Nonetheless, the task of promoting exports cannot be envisaged entirely in aggregative terms. The very process of development and the framework of controls within which it operates, throw up new problems which must be taken into account in the strategy for export promotion; and the objective of diversifying exports and export markets in a developing economy requires specific measures in specific cases. To this end, Government has initiated a number of rectifying and promotional measures in recent years including removal of restrictions on exports, reduction and elimination of export duties, schemes of drawback on excise and customs duties, assurance of imported and domestic raw materials and components as well as equipment for exporting units, the establishment of Export Promotion Councils, the institution of quality control and pre-shipment inspection, export credit guarantees and the like. During the year under review, these various export promotion measures were rationalised and extended to a larger number of industries.

57. The export duty on tea was reduced with effect from March, 1961. The schemes of drawback of customs and excise duties were extended and they now cover a number of new engineering products as well as cinema films and plastic goods. Among the new schemes for import entitlements to exporters, mention may be made of the import of machinery against manganese ore exports and the import of dyes, chemicals and other materials and equipment against exports of cotton (and mixed) fabrics. A measure of export consciousness has been generated by all these promotional efforts and the stage is now set for encouraging individual industries to take concerted steps to sell a growing proportion of their output in foreign markets.

58. While sound developmental and promotional policies at home are pre-requisite for generating a new dynamism in exports, commercial policy abroad has an obvious bearing on the chances for our exports. The formation of the European Common Market, the decision of the United Kingdom to negotiate for membership of the Common Market and the growing tendency to protect domestic markets against competition from the so-called low-wage countries have created a new situation where the Government has had to strengthen its efforts to promote a truly liberal policy abroad towards the nascent exports of developing countries. The machinery of trade and payments arrangement has also continued to be utilised for enlarging mutually beneficial trade with other countries.

59. At the present stage of our development, a substantial part of our requirements has necessarily to be met from external assistance. The total requirements of external assistance during the third Plan period were estimated at Rs. 2600 crores exclusive of P.L. 480 imports. Of this, Rs. 1900 crores was on account of project imports and the remainder for maintenance imports and for reducing the burden of servicing the foreign debts already incurred. Against these requirements, a sum of about Rs. 700 crores was in hand at the beginning of the third Plan either as carry-over of assistance from the second Plan (Rs. 372 crores) or as aid committed for projects to be taken in hand during the third Plan. The Consortium meetings organised by the World Bank in May and June 1961 led to a provisional commitment of assistance of the order of Rs. 1100 crores. Outside the Consortium, we have received a line of credit of Rs. 21.43 crores from Italy for the development of petroleum industries in the public sector.

60. With the assistance already committed or promised, it has been possible to cover a substantial portion of the foreign exchange requirements of third plan projects particularly in the vital sectors of steel, coal, power and transport. A large part of the assistance from the U.S. and the World Bank has been allocated to a number of power projects and to the railways; and the requirements of private coal mines for expansion are expected to be covered by assistance from the World Bank. An agreement for the expansion of the Bhilai Steel Plant has been signed with the U.S.S.R. and a part of the assistance promised by the U.K. and Germany has been earmarked for the expansion of the other two steel plants in the public sector. Similarly, assistance is already available for meeting a significant part of the foreign exchange needs of other industrial projects in the public and the private sector.

61. A welcome feature of the credits arranged in accordance with the commitments made at the Consortium meeting last year has been that they accord with our need for speedier utilisation of the assistance already committed and for terms which bear less heavily on our balance

of payments in the near future. Assistance from the U.S., for example, now includes a sizeable portion for maintenance imports and a major part of German and British credits comes to us in the form of cash instalments. During the year, we also began to receive assistance from the newly set up International Development Association. Credits from this agency are virtually interest free and are repayable over a period of fifty years with a grace period of ten years. There has also been some progress in terms of commitment of funds reasonably in advance of actual need so as to facilitate an orderly implementation of the Plan.

52. Further commitments of aid for the second year of the Plan as well as for subsequent years are still needed. And the prompt utilisation of assistance from a number of sources and for a variety of requirements necessarily poses problems which would need increasing attention. Again, since development is a continuous process, some aid commitments for utilisation in the fourth plan will need to be made during the current plan period. Nevertheless, the situation regarding assurance of aid for the Third Plan at the present stage shows considerable improvement over the position at the corresponding stage of the second Plan. Altogether, there has been much greater understanding and acceptance abroad of our need for assistance in recent years.