

II. The First Half of 1962-63

4. Against this background, the Budgets of the Centre and the States for 1962-63 provided for a substantial step-up in plan outlay, particularly in the vital sectors of agriculture, power, transport and industry. The total budgetary provision for the plan in 1962-63 amounted to some Rs. 1,465 crores and represented an increase of 30 per cent over the anticipated outlay in the preceding year. Simultaneously, the budget at the Centre introduced substantial additional taxation of Rs. 89 crores (including Rs. 21 crores from increases in railway fares and freights) in succession to a tax effort of Rs. 85 crores in 1961-62. Taken together, the additional taxation undertaken by the Centre during the first two years of the plan was expected to yield Rs. 850 crores over the plan period, or more than 75 per cent of the target of Rs. 1,100 crores set in the plan.* Apart from raising resources for the plan, the taxation effort at the Centre was

*Revised Estimates for 1962-63 would suggest that the yield from additional taxation during the year would be higher than Rs. 89 crores so that the total yield over the five years is likely to exceed Rs. 850 crores.

designed to provide a corrective to the balance of payments by discouraging imports through higher customs duties on a large variety of goods and by encouraging exports through a restraint on internal demand as well as through a slightly more favourable treatment to export incomes in corporate taxation.

5. Before the formulation of the Budget, a review of the programmes in vital sectors was undertaken by the Planning Commission in consultation with the Ministries and State Governments concerned. This was continued during the earlier part of the year and a number of specific measures and procedures were worked out to ensure accelerated and coordinated development in those areas where shortages had begun to appear. The remedial measures taken and the results expected therefrom are discussed in Part Two. But mention may be made here of the decisions to enlarge the railway development programme to meet the specific needs of coal transport, to provide accelerated assistance to the States for power development, to augment the power supply in the W. Bengal-Bihar area particularly to meet the needs of coal mines and to focus greater attention in agricultural programmes on minor irrigation, soil conservation, speedier utilisation of irrigation facilities and on production of crops such as cotton and oilseeds which have an important bearing on the balance of payments. Considerable attention was also given to the effective harnessing of the steel capacity already created as well as to quicker implementation of all projects for which foreign exchange was already assured.

6. By its very nature, the remedial action initiated after the detailed review of programmes and emergent trends will bear fruit only over time. But there were signs, during the first half of the year, of some improvement in the situation. The output of coal, steel, aluminium, railway wagons and machine tools in April-September 1962 was significantly higher than in the corresponding period of 1961, and there was similar improvement in regard to the generation of electricity and the movement of freight. The progress in industrial production was by no means even. Thus the output of automobiles, ammonium sulphate, cement and rubber tyres and tubes in April-September 1962 was virtually the same as in April-September 1961. During the same period, cotton cloth (from mills and the decentralised sector taken together) registered a decline in output (0.5 per cent) and jute textiles a sizeable increase (35.4 per cent) reflecting in the main the divergent trends in the availability of raw cotton and raw jute from internal production. On the whole, industrial production in the first half of the current fiscal year was 7.2 per cent higher than in the corresponding period of 1961-62.

7. The availability of agricultural supplies in the first half of the current fiscal year depended largely on the outturn of crops during the 1961-62 agricultural year (July-June). Foodgrains production in 1961-62 had been slightly lower than in 1960-61 (78.6 million tons as against 79.7 million tons) and the decline was particularly sharp in the case of jowar and pulses. While wheat output had increased significantly, there was little change in the outturn of rice. Among commercial crops, both sugar and raw cotton had declined in production whereas the 1961-62 jute crop was a bumper one and there was some improvement in regard to oilseeds.

8. The absence of any increase in agricultural output combined with continuing increase in demand imparted a firmness to prices, particularly prices of rice, jowar, pulses, sugar and gur. Between March and August

1962, the general level of wholesale prices increased by 6.1 per cent as a result mainly of an increase of 9.3 per cent in the prices of foodgrains. In view of the renewed pressure on prices, releases of foodgrains from stocks and despatches of sugar from factories were augmented, speculative tendencies were held under check by control over forward trading and bank credit and steps to ensure greater control over distribution and to enlarge the net-work of consumer cooperatives were given urgent attention. At the same time, the ceiling prices of cotton were raised and procurement prices for rice were announced to provide an incentive for greater production.

9. To a certain extent, signs of the emergence of excess demand were also evident in monetary trends during the earlier part of 1962. The decline in money supply during April-October, 1962 (mainly seasonal) was only Rs. 21 crores as against a decline of Rs. 58 crores in the same period in 1961. Bank credit to the private sector which normally declines during this period actually registered an increase of Rs. 14 crores in 1962.

10. In the light of these trends, the process of an orderly and gradual increase in interest rates, which had been under way over the past few years, was carried a stage further in the current year. The three-tier system of Reserve Bank lending rates in operation since October 1960 was replaced in July 1962 by a four-tier system which meant in effect an increase in the average lending rate of the Bank by $\frac{1}{4}$ per cent or more and this was reflected in a corresponding increase in the cost of commercial bank credit. The lending rates of financial institutions such as the Industrial Finance Corporation were raised correspondingly by $\frac{1}{4}$ per cent. Market borrowing by the Central and State Governments and semi-public institutions this year was undertaken at rates of interest which represented an increase of between $\frac{1}{4}$ and $\frac{1}{2}$ per cent on medium and long-term debt. The rate of return on post office savings accounts was also raised by $\frac{1}{4}$ per cent to stimulate small savings which had shown a declining trend for some time.

11. The financial position of a number of State Governments showed signs of weakness during the earlier part of the current year. The taxation effort of the States during 1961-62, unlike that of the Centre, had been of a very modest order and amounted to additional taxation of Rs. 14 crores with a five-year yield of Rs. 102 crores. This was equivalent to only 16.7 per cent of the total five-year target of Rs. 610 crores. With the step-up in plan outlays in 1962-63, a number of States began to run into ways and means difficulties and the Centre had to grant *ad hoc* assistance of as much as Rs. 74 crores during the first six months of the current year. A fresh review of the financial position of each State was, therefore, undertaken in June-July and the States were urged to undertake substantial additional taxation and to contain their plan and non-plan expenditure within resources in sight. At the same time, accelerated assistance was promised to those States which could not be expected to finance their priority programmes on their own. Following these discussions, additional taxation was undertaken by a number of States with a total yield of Rs. 33 crores in 1962-63 and Rs. 58 crores in a full year. Taken together, the additional taxation undertaken by the States in the first two years of the plan is expected to yield Rs. 330 crores over the plan period as a whole.

12. A major disturbing development during the first half of 1962-63 was the continued pressure on balance of payments, particularly during the first quarter (April-June) when India's foreign exchange reserves

declined by as much as Rs. 56 crores. To counter this adverse trend, stringent restrictions, particularly on foreign travel, were introduced and import quotas for April-September which were already announced were subjected to a further mid-term cut. In view of the extremely low level of reserves, a stand-by credit of \$100 million was arranged with the International Monetary Fund and of this, \$25 million (Rs. 11.9 crores) was drawn in July 1962. The pressure on balance of payments abated during the July-September quarter when there was actually an increase of Rs. 4.5 crores in foreign exchange reserves (after taking credit for the drawing on the International Monetary Fund). Even so, the overall deficit in balance of payments (as measured by the decline in aggregate reserves and net drawings on the Fund) was only marginally smaller in April-September 1962 (Rs. 63.5 crores) than in the corresponding period of 1961-62 (Rs. 69.5 crores).

13. Imports during April-September 1962 were significantly higher than in April-September 1961. But this increase reflects essentially the increase in imports of food and capital equipment for projects and was offset by greater utilisation of available assistance. There was a distinct improvement in the utilisation of available assistance both from the consortium countries and from the U.S.S.R. Non-project imports were roughly of the same order as in the first half of 1961-62. Larger payments on account of interest charges were offset by improvement in other current invisible earnings and there was a reduction in the outflow of banking capital. Export earnings during April-September 1962, according to balance of payments data (and excluding exports from Goa, Daman and Diu), were Rs. 11.6 crores lower than in the corresponding period of 1961. Trade statistics, however, show practically no variation in the *value* of exports over the same period. In terms of *volume*, the improvement in exports witnessed in 1961-62 was continued during the first half of 1962-63. But this improvement was offset by a decline in export prices, particularly in respect of India's two most important exports, *viz.* jute goods and tea. The increase in the *volume* of exports was notable in the case of jute goods, tea, sugar, oil-cakes, vegetable oils, iron ore, cashew kernel, tobacco, hides and skins, footwear and art silk fabrics. The *volume* of exports, however, declined in respect of raw cotton, cotton textiles, manganese ore and coffee.

14. Given the continuing pressure on balance of payments, a vigorous promotion of exports has become a major objective of economic policy in the country. Some of the important measures taken recently in this direction are summarised in Part Two of the Survey. But an enduring corrective to the balance of payments requires, apart from promotional measures and measures of restraint on domestic demand, a primary orientation in investment policies in favour of export industries and industries that might keep the demand for imports under check. This, in fact, has been the basic orientation of the third five-year plan and the programmes in the public sector relate either to social and economic overheads of development or to the basic sectors of industry where dependence on imports is, or threatens to be, large. In regard to programmes in the private sector also, the emphasis for some years now has been on encouraging basic industries and industries oriented to exports and on discouraging those which seek to cater to domestic consumption on the basis of imported materials and components. A fresh review of programmes in the private sector was undertaken in the summer of 1962 and subsequently certain priorities in regard to further expansion in the private sector were laid down with a view to speeding up progress in specified directions and discouraging it in others.