

III. Developments since the Emergency

15. Economic developments in the country during the first half of 1962-63 had thus called for adjustments in policy on a number of fronts. And it was at this juncture that the economy was exposed, at the outset of the second half of the year, to armed aggression on the northern borders. The immediate task of economic policy, in the wake of the emergency, was to permit defence mobilisation at as quick a pace as possible without upsetting the general balance of the economy; and by all available evidence, this proximate objective has been achieved with the help of the spontaneous cooperation of the people.

16. The 1962-63 Budget had originally provided for a defence outlay of Rs. 376 crores. A supplementary provision for Rs. 95 crores was made in November in the wake of the emergency. No fresh proposals for raising revenue were introduced at the time. The spontaneous and enthusiastic response of all sections of the people to the National Defence Fund and the general acceptance of the need for austerity reduced the urgency for compulsory measures to restrain demand. Immediately after the declaration of the emergency, the National Defence Fund was set up and a new series of National Defence Bonds and Defence Savings instruments was introduced. A little later, the Gold Bonds and Premium Prize Bonds were issued, and in keeping with the earlier trend to lever up the interest rate structure, the new borrowing instruments were offered at more attractive rates of return. Contributions to the National Defence Fund and subscriptions to the National Defence Bonds together are expected to amount to Rs. 65-70 crores during the current fiscal year. From January 1963, compulsory emergency insurance has been introduced and it is expected to yield a sum of Rs. 9 crores during the current fiscal year.

17. The absence of any significant upsurge in speculative tendencies and the reduction in the pressure on prices in recent months are also important indicators of the community's willingness to help preserve the health and stability of the economy in the face of the emergency. Prices remained stable around the peak level reached in August for the next 2½ months and the normal seasonal decline did not start till the middle of November. Since the middle of November, however, the downward trend in prices has been quite marked in the case of almost all agricultural commodities and the general index of wholesale prices had declined to 125.8 by the middle of January, 1963, i.e. to a level a little below what was reached at the beginning of the third plan. To a certain extent, recent price trends reflect the impact of greater releases from stocks as well as of action to counter speculation in commodity markets and to prevent excessive increase in credit. It must also be remembered that the major impact of defence mobilisation has yet to be felt. It is, nevertheless, significant that there has been so far no resurgence of inflationary pressures in the present emergency.

18. On the whole, there has been little further pressure on balance of payments since the beginning of October. Total foreign exchange reserves remained virtually unchanged during the October-December quarter and there has been some improvement in reserves in recent weeks. The period from October to March is generally a favourable part of the year from the point of view of export earnings, although in recent years it has also emerged as a period of substantial obligations in respect of interest

charges and debt repayment. Export earnings during October-December 1962, according to trade statistics, were significantly higher (by Rs. 14.8 crores or 8 per cent) than in the corresponding period of 1961. If this trend continues during the January-March 1963 quarter, total exports during 1962-63 may reach the level of Rs. 680 crores (or Rs. 695 crores including exports from Goa, Daman and Diu) as against Rs. 668 crores in 1961-62 and Rs. 631 crores in 1960-61. Over the past three years, therefore, there have been some signs of a modest but steady increase in export earnings. Reimbursements under the U.S. non-project and other credits have gathered momentum in recent months, and this has also been a significant factor in sustaining reserves. On February 15 this year, the foreign assets of the Reserve Bank stood at Rs. 105.1 crores.

19. At the outset of the emergency, it had to be recognised that the new situation might create additional demands on imports which could not be financed from assistance available or forthcoming. Given the very low level of reserves, a further tightening of import allocations against free foreign exchange was, therefore, inescapable; and the import policy for October-March was announced on a more stringent basis and after a considerable delay.

20. At the same time, Government has initiated a major and determined effort to stamp out a significant source of drain on India's foreign exchange resources. The generally high demand for gold in the country for traditional and other reasons has led to smuggling of gold on a considerable scale in recent years; and the financing of this illegal traffic has led to malpractices in violation of exchange control regulations and to clandestine transactions at unofficial rates of exchange. In the wake of the emergency, a campaign to educate public opinion was launched and the Gold Bonds were issued as a first step towards weaning people away from gold. The forward market in gold was closed to reduce the ease with which smuggled gold could be disposed of in the country. Later, Gold Control Rules were promulgated in order to regulate internal transactions in gold in such a way as to bring about a progressive reduction in demand as well as to provide a series of checks on smuggling. The new gold policy marks an important departure in the social and economic history of the country and it is an index of the seriousness with which the balance of payments position of the country at present has to be viewed.

21. The present emergency has also had a salutary effect on labour-management relations and it has led to a general appreciation of the importance of increasing production and reducing costs. In response both to the efforts made before and after the onset of the emergency, the production in a number of basic industries this year is expected to increase significantly over the level reached last year. On current indications, the output of coal in 1962-63 is likely to be 62 million tonnes against 55 million tonnes in 1961-62, of cement, 8.7 million tonnes against 8.3 million tonnes and of saleable steel, 4.1 million tonnes as against 3.2 million tonnes the year before. The railways are expected to carry 175 million tons of freight in the current year as against 160 million tons in 1961-62. The addition to installed capacity for power generation this year, although still small in relation to requirements, is expected to be larger than in 1961-62 (650 mw as against 580 mw).

22. In one particular respect, however, the immediate impact of the emergency has been somewhat adverse. Since the middle of May 1962, a hesitant trend in stock markets was in evidence and share prices had

tended to decline except for a brief spurt in August. This downward trend in share prices was further accentuated after the beginning of hostilities; and although market sentiment has revived from time to time in recent weeks, the general feeling of uncertainty has prevailed and it has had an inhibiting effect on the floatation of new issues. There have also been occasional signs of sluggishness in recent months in regard to production in a few industries. The underlying economic conditions in the country offer little warrant for the uncertain and generally subdued trend in stock markets or for any slackness in the economy. But it is quite clear that the performance of the economy in the coming months would depend to a significant extent on the confidence of private investors and in their ability to raise the funds necessary for the expansion of essential business.

23. The prospect of a substantially larger defence effort for some years to come naturally called for a re-examination of plan priorities and of the scale of plan expenditure in the coming year. For some years now, the course of plan outlay from year to year has been determined by annual plans framed in the light of emergent conditions. Discussions on the annual plan for 1963-64 were conducted this year at the highest level and were brought to a focus at two meetings of the National Development Council. In view of the reassessment undertaken earlier, the implementation of the plan had already gathered a certain momentum during the second year of the plan; and the need to complete speedily the programmes already in hand would dictate considerable further step-up in plan outlay during 1963-64. Provision had also to be made for programmes directly related to the immediate needs for defence. Considering the continuing nature of the threat to the country's security and the vital connection between defence potential and the development of the basic sectors which form the corner-stone of the third plan, it was felt that a slowing down of plan implementation would not serve the paramount interests of defence. Accordingly, the National Development Council decided that, with the utmost regard for efficiency and economy in both plan and non-plan expenditure and for the continuing health and buoyancy of the productive forces in the country, every endeavour should be made to mobilise domestic resources on a scale and in a manner which would permit defence and developmental effort to be carried to the full limit of available physical resources.

24. The limits to available physical resources, particularly in regard to the most scarce yet versatile resource of foreign exchange, and the ability of the economy to endure the organisational and other strains implicit in a sharply increased and broad-based mobilisation of domestic resources could not, in the nature of things, be defined in advance with absolute precision. But given the inescapable necessity of continuing assessment of policies and possibilities, it is clear that the objectives set by the National Development Council for 1963-64 would call for unprecedented effort at resource mobilisation.