

## **ECONOMIC SURVEY—1963-64**

### **PART I**

During the year under review a major effort was made to strengthen the country's defences. At the same time it was recognised that emphasis on economic development, which was essential both for its own sake and to support the defence effort had to continue. Outlays on both defence and the Plan were, therefore, substantially larger than in the previous year. This called for a substantial stepping up of the tax effort. Turning to production trends, while in agriculture there was a decline in 1962-63 compared with the high level attained in 1961-62, resulting in reduced availability of some essential articles of consumption, industrial production continued its upward trend. The overall rate of growth was not, however, commensurate with earlier expectations, and attention was sharply focussed on this in the review that was made in the middle of the year of the progress of the Plan as a whole. Considerable thought was, therefore, given to the problem of accelerating the rate of economic growth. It was recognised that improvements had to be effected in the implementation of the agricultural programme and in the execution and working of many public sector undertakings. The fiscal and monetary situation was also reviewed and a number of measures were taken in the latter part of the year to revive the capital market, to stimulate investment and output, to extend social security and to provide such relief to the consumer as was consistent with the claims of defence and development.

#### **The Budget for 1963-64**

2. Defence expenditure in 1962-63 was Rs. 505 crores according to Revised Estimates, representing an increase of Rs. 192 crores above the level in 1961-62. The Budget for 1963-64 made a provision for a further and substantial increase to a total of Rs. 867 crores. In accordance with the decision of the National Development Council, the development programme was strengthened alongside the increase in defence expenditures and the Budget made a provision for increasing the outlay on the Plan from Rs. 1,414 crores to Rs. 1,654 crores. A very considerable tax effort was needed to provide for the increased outlays and the Central and State Budgets sought to raise Rs. 334 crores through additional taxation and increases in railway fares and freights and postal charges. The Budget envisaged that the increase in Government expenditure would be financed primarily by additional tax revenues and efforts to mobilise private savings through market borrowings, small savings collections, etc. Nevertheless, the budgetary deficit was estimated to be Rs. 181 crores at the Centre, though every effort was to be made to reduce this.

3. The substantial rise in taxation was designed not only to raise revenue but to discourage in particular the consumption of items which had to be imported or for which an increase in demand was expected in the wake of the defence effort. It is noteworthy that as a result of the increase in taxes on kerosene, for instance, the rising trend in consumption which had to be met by imports was checked, giving relief to the balance of payments.

4. In some respects, the budgetary provision for expenditure at the Centre had to be increased in the course of the year. The provision for Central assistance to the States for their plans, for example, was raised from Rs. 450 crores to Rs. 500 crores in October, 1963 and a further increase of Rs. 15 crores had to be sanctioned subsequently. On the side of receipts, while tax collections have been higher than expected, market borrowings were somewhat lower than envisaged in the Budget Estimates. The increase in the rates of return and the liberalisation of the limits of individual subscriptions stimulated small savings, net collections of which amounted to Rs. 71 crores in the first nine months of 1963-64 as against Rs. 30 crores in the corresponding period of 1962-63. Altogether, when the fiscal situation was reviewed towards the end of 1963, it was reckoned that, allowing for likely shortfalls in expenditure, the budgetary deficit of the Centre would be lower than the Budget estimate of Rs. 181 crores.

### **Production Trends**

5. Agricultural production as a whole declined by 3·3 per cent in the 1962-63 crop season. The output of rice fell by 2·8 million tonnes or 8 per cent, and of sugarcane and wheat by about 7·5 per cent each. The state of agricultural production in 1962-63 was relevant for the supplies, in the earlier part of the year, of consumer articles as also of raw materials for several important industries. The cotton crop had recovered from the low level of the previous year and had reached 5·3 million bales in 1962-63; and the total production of cloth during the first half of 1963-64 was 3,468 million metres as against 3,399 million metres in the second half of the previous year. Although jute and mesta production declined, the production of jute manufactures increased since adequate stocks of jute were available and foreign demand was satisfactory. The decline in sugarcane production and the diversion of cane to the manufacture of gur and khandsari led to a sharp fall in the output of crystal sugar.

6. The availabilities of power and transport and of basic materials such as coal increased and shortages were relieved. Electricity generated was higher by 16 per cent in the first half of 1963-64 as compared with the corresponding period of 1962-63. The goods traffic carried by the railways went up by 10 per cent. The production of steel reached full capacity level towards the end of 1962-63 and aluminium output rose as a result of substantial additional capacity coming into production. The marked increases in the production of coal and cement achieved in the second half of 1962-63 were on the whole maintained, though demand for the latter continued to be in excess of supply. Machine tools, electrical machinery, transport equipment such as railway wagons and trucks and other items of capital equipment were produced in larger quantities. In engineering industries, increases in output were facilitated by increased indigenous content of production. Altogether, industrial output in the first half of the year under review showed an increase of 8·5 per cent over April-September 1962. These trends are expected to continue in the second half of the year also, and industrial production during 1963-64 as a whole should show an increase comparable to that in the previous year.

### **Price Trends and Short-term Policy Measures**

7. The decline in agricultural production and the consequent scarcity of supplies of consumables had begun to exert a pressure on prices during the early months of 1963. Accordingly, apart from limiting the scale

of deficit financing, the Budget for 1963-64 had avoided large increases in indirect taxation on items of mass consumption which were produced domestically. Even so, there has been a steady upward pressure on prices in general over most of the year. Sugar prices had started rising from January 1963 and rice prices which had declined between October 1962 and March 1963 by 3 per cent went up between April and October 1963 by as much as 17½ per cent. The rise in rice prices was particularly sharp in West Bengal and Madhya Pradesh where the production of rice had shown a large decline. There was also a marked increase in rice prices in Orissa and Maharashtra and, later in the year, in Andhra Pradesh, Madras and Kerala.

8. The situation was sought to be met by larger releases of rice and wheat from Central stocks to the States affected by the scarcity and by an increase in the number of fair price shops and consumer cooperatives. Larger imports of rice were also arranged. In the case of sugar, price and distribution controls were re-imposed in April 1963.

9. The normal seasonal tendency for wholesale prices in general to decline over the second half of the fiscal year has not been in evidence during the current year. The wholesale price index (1952-53=100) which had reached 136 at the end of October 1963 declined to 134 by the end of November, but it rose again in December and on January 25, it was 137. Rice prices have indeed declined since October—on an average by 8.5 per cent, the decline being marked in particular States where a sharp increase had occurred earlier. Even so, by the end of January 1964 they were 10 per cent higher than a year ago. Edible oil prices have fallen and gur prices have also shown a sharp decline since October. It is disturbing, however, that there has been a marked increase in prices of wheat, inferior cereals like jowar and of cotton in recent months.

10. The rise in the price level has been a matter of major concern throughout the year. To give relief to the lower income groups, the Compulsory Deposit Scheme was withdrawn in September 1963 so far as non-income tax-payers were concerned. There was an increase in pensions and a liberalisation of the terms of the Family Pension Scheme for Government employees in addition to compensation for the rise in cost of living. A number of steps are also being taken to reverse the rising trend in prices. In view of the expected larger crop of rice, Government have decided to step up the procurement programme with the object of building up a substantial stock. State Governments have been advised to stipulate margins to be maintained by traders and also to regulate trading practices through more effective supervision and inspection of trade transactions. Restrictions have been imposed on the movement of cotton in some areas and imports are being arranged. While these remedial measures are being taken, it is becoming increasingly clear that the primary approach to price stability has to be in terms of stimulating production and productivity.

### **Measures to Stimulate Production**

11. The assurance of a fair minimum return has in recent years been recognised as being necessary to secure higher levels of agricultural production. The price support and buffer stock schemes for raw jute had resulted in increased output in 1961-62 and a comfortable stock position since then. During the year under review, minimum prices of wheat and procurement prices of rice were raised. Minimum prices of

jowar were also fixed for the first time, thus extending the coverage of the price support schemes to major food and commercial crops. In order to encourage the cultivation of sugarcane and improve the yield and quality, the minimum prices of sugarcane were increased. Fiscal incentives were also given to factories to stimulate larger production of sugar during the 1963-64 season.

12. Considerable attention has been given to the intensification of agricultural programmes since the Emergency. The "package" approach was extended to the production of important commercial crops in view of the increasing requirements of industry and exports. In July 1963 an Agricultural Refinance Corporation was set up to facilitate medium and long-term credit for the development of agriculture and allied activities.

13. Reappraisal by the National Development Council of the Third Five-Year Plan in November 1963 indicated that a concerted drive was necessary to achieve the 5 per cent annual rate of growth visualised at the beginning of the Plan and that improved organisation was required particularly in the field of agriculture. Following this reappraisal, an Agricultural Production Board, with the Central Ministers and a Member of the Planning Commission as members, was set up to ensure an integrated approach in matters of agricultural policy.

14. Both fiscal and price policies were employed to stimulate production in priority industries. An increase in price for additional production was allowed in 1962-63 to the cement industry as a result of which it was able to maintain high levels of production during the current year. The development rebate for the coal industry was increased from 20 per cent to 35 per cent with a view to encouraging investment and output. While the basic import duties on machinery were raised, concession was given for coal mining machinery and fertiliser manufacturing equipment.

15. There has been increasing recognition of the fact that while a measure of control over basic items in short supply is necessary in a planned economy, it is equally important to ensure that basic industries secure returns adequate to finance expansion and to attract capital which would otherwise go into non-priority industries. Apart from this, controls in actual operation over a long period do not always serve the purposes for which they were set up so that a continuing examination of the operation of controls is an important task of policy. In keeping with these considerations, price and distribution controls on 16 commodities including rayon yarn, staple fibre, various chemicals, soap and natural rubber were removed during the year. The problems of steel, coal and electricity have naturally called for more detailed examination. A committee of economists has reviewed the operation of the distribution and price controls on steel. The question of adjusting electricity tariffs in order to secure an adequate return on power generation and the need for revision of coal prices have been examined by inter-departmental committees. The recommendations of these committees are under consideration.

16. A number of steps to improve industrial efficiency and speed up the process of development were taken. In the public sector, measures were adopted to strengthen management and expedite decision making. The procedures with regard to the control of expansion of industrial capacity in the private sector were simplified. Arrangements were made

to take prompt decisions on proposals submitted by potential foreign investors. The exemption limit for licensing under the Industries (Development and Regulation) Act was raised to Rs. 25 lakhs of fixed assets and capital issues below this amount were also freed from control. A committee of non-officials and officials recommended a revised procedure for considering applications for establishing capacity in certain key industries, and its proposals were accepted by Government. At the same time, the laws relating to banking and company operations were amended to provide safeguards against the concentration of economic power and against malpractices in business administration.

17. There had been a slackening in the raising of fresh capital and in the starting of new projects by private industry after the Emergency. While the foreign exchange required for import of equipment, components, etc. remained scarce, in the case of projects for which foreign exchange had been arranged, difficulties of rupee finance needed to be removed. Steps were therefore taken towards the end of the year to stimulate the flow of savings into industries of high priority. In order to enable priority projects to move forward, additional financial resources were made available by Government to the IFC and the ICICI, and as a measure of immediate relief it was announced that no premia for Emergency Risk Insurance would be collected during January-March 1964.

18. As longer term measures, a Unit Trust was set up to channel small savings into industrial investment and Government announced that a Development Bank would be established to finance private industrial expansion. The Bank will coordinate the activities of existing financial institutions and give assistance for the promotion of key industries as also industries requiring special assistance.

### **Monetary Trends**

19. In the slack season of 1963 there was an unusually large contraction of bank credit to the private sector. Government borrowings from the banking system were significantly larger than in the previous year and money supply with the public increased substantially. The deposit resources of the banking system expanded; but time deposits increased less than demand deposits, partly as a result of the offer by non-financial institutions of high rates of return on funds deposited with them. After a review of monetary trends, a modification was made in the Reserve Bank's policy in regard to accommodation to the scheduled banks to enable them to meet the genuine credit needs during the busy season.

20. The expansion of bank credit to the private sector during the first two and a half months of the current busy season (November to mid-January) was substantially larger than in the corresponding period of the previous year whereas Government borrowings from the banking system have been significantly smaller. In part, the larger credit creation for the private sector reflected the expected increase in agricultural production and the replenishment of stocks which, in all probability, were run down during the previous year. It will, nevertheless, be necessary to keep a careful watch on credit trends with a view to ensuring that credit expansion does not lead to speculative hoarding of commodities. The accent of monetary policy will also necessarily have to be on realistic interest rates which reflect adequately the real cost of capital to the economy.

## Balance of Payments

21. A major task of policy in recent years has been to conserve scarce foreign exchange resources and to secure progressive increases in export earnings. The budget for 1963-64 had, as noted earlier, increased import and excise duties with a view to curtail the consumption of commodities which were chiefly imported. The increase in direct taxation was accompanied by concessions in respect of exports. The gold policy of Government has also been directed towards conservation of foreign exchange which financed the smuggling of gold and while some features of the Gold Control were eased to meet the transitional problem arising from the unemployment of goldsmiths, there can be no slackening of the effort to discourage the use of gold in the country.

22. These and other measures have resulted in a degree of improvement in the balance of payments position during 1963-64. The level of sterling balances at the beginning of 1963-64 was about the same as at the beginning of 1962-63 and it is expected that the position at the end of 1963-64 would be no worse. There is, however, one major improvement in 1963-64 as compared with 1962-63. In 1963-64, India will have repaid a part of its drawals from the International Monetary Fund, while in 1962-63, it had actually borrowed from the International Monetary Fund.

23. The increase in export earnings over the previous year has been a major factor contributing towards this improvement. During April-November 1963, export earnings were Rs. 512 crores, i.e. Rs. 56 crores higher than in the corresponding period of the previous year and the rising trend in exports continues. On the import side, a higher proportion has been financed out of the external assistance which India receives from friendly countries. The improved utilisation is, in part, attributable to the delivery of plant and machinery ordered against earlier credits and in part due to a larger proportion of external aid being available in non-project form. It is important for the economy to speed up the utilisation of external assistance and a high-level committee was appointed to examine the problem. Its report is awaited.

24. Valuable as external assistance has been in promoting economic development and in achieving stability in the external balance, the growth in the external debt falling due for repayment over the next few years has become a matter of concern. The growing debt repayment burden underlines the paramount importance of strengthening the balance of payments as well as the need for avoiding arrangements for financing imports which result in short and medium-term payment liabilities and entail high interest charges.

## Outlook and the Tasks Ahead

25. In the ultimate analysis, a lasting solution to India's major economic problems can be sought only within the framework of a rapidly expanding economy. The need for accelerating the pace of growth has become all the greater in the context of substantially larger defence requirements. At the same time, the acceleration of economic growth must be achieved in an environment of reasonable stability of prices if the levels of living at the most vulnerable points in the society are to be protected and raised and if the economy as a whole is to be freed progressively from dependence on external assistance.

26. There are indications that the rise in national income in real terms will be higher in 1963-64 than in the first two years of the current Plan. The potential for a rapid rate of development has been built up as a result of the investment and effort already made in the past. Advance action is also being taken in relation to some of the schemes to be executed during the Fourth Plan period. The favourable situation in regard to transport, power, and the like which exists now will have to be made full use of so as to push production and incomes to still higher levels during the remaining years of the current Plan. The paragraphs below indicate in brief the progress in basic sectors which is likely to occur as a result of present efforts and to suggest areas where further efforts will be necessary.

27. Agricultural output has been rising at an average annual rate of 3.5 per cent over the last 12 years. It would appear that significant returns are being secured from the investments in the agricultural sector. The increase in the utilisation rate of irrigation potential from 50 per cent in 1955-56 to 71 per cent at the end of the Second Plan and around 80 per cent in the current year, indicates that the capital investment is being more productively employed.

28. The gross irrigation potential of major and medium schemes is expected to rise by 6.8 million acres during the last two years of the Third Plan, as compared to an increase of 3.5 million acres during 1962-63 and 1963-64 and utilisation is expected to improve further. In 1964-65 an additional area of 3.2 million acres is expected to be brought under minor irrigation and soil conservation programmes should cover an additional area of 2.8 million acres. The substantial increase in supplies of fertilisers should also have an impact on agricultural output. The consumption of nitrogenous fertilisers (in terms of nitrogen) rose from 193,000 tonnes in 1960-61 to around 450,000 tonnes in 1963-64, and is expected to rise further to 570,000 tonnes in 1964-65 and 750,000 tonnes in 1965-66. The availability in adequate quantities of improved seeds has been important in raising output; and an additional area of 21 million acres is proposed to be brought under improved seeds in 1964-65. Similarly, supplies of pesticides, of bulk storage facilities and of credit for productive purposes will be substantially larger. Altogether, the flow of productive inputs to agriculture will be considerably higher, and the dependence on weather conditions should be further reduced.

29. That an expanding agricultural economy is essential to progress in other spheres is generally recognised. Without agriculture making its proper contribution, it would be difficult to secure the desired increase in national income, in savings or in exports; nor could costs and prices be held down to let development proceed smoothly. The success of an agricultural programme, however, depends ultimately on what happens at the farm level, on whether or not adequate arrangements exist to provide the individual farmers with the knowledge, the resources and above all the incentives needed for additional production. The intensive district development programmes and the package programmes for cotton, oilseeds and sugarcane provide a part of the answer to the organisational problem, and the creation of the Agricultural Production Board, the appointment of a Production Commissioner for commercial crops and the decision to deploy study teams to go into the problems of individual States are also important steps in the same direction. However, in the case of commercial crops like cotton, oilseeds and jute, where speedier progress has become imperative in the overall context, the time has come

to consider whether the existing machinery should not be further strengthened to ensure that these commodities receive the specialised attention that is needed to secure quicker results.

30. Among agriculture-based industries, the jute mills have been able to utilise the additional supplies of raw jute efficiently as a result of the modernisation of equipment. The progress of modernisation of the cotton textile industry has, on the other hand, been slow. The expansion of capacity, particularly for the production of yarn, and modernisation need to be undertaken speedily to meet the increase in demand for cotton cloth as a result of higher incomes and population growth and to improve the competitive position in export markets. While the equipment for this purpose may be imported to some extent, primary reliance will need to be placed on the expansion of textile machinery manufacture. In the case of sugar industry, expansion of capacity and modernisation can now be effected with indigenous equipment.

31. During the first three years of the Third Plan, power generating capacity has increased by 1.97 million KW, and as a result the power requirements of industry are being met fairly adequately, though there are localised shortages. The additions to capacity expected are 2 million KW in 1964-65 and 2.9 million KW in 1965-66; and as a result, power requirements should continue to be adequately met even with significantly higher rates of increase in industrial production. The inter-connection of major power systems in regional grids will help to even out supplies. In order to secure continuing expansion of power generation at around the rate likely to be achieved by 1965-66, projects to meet requirements in the early years of the Fourth Plan have been taken up in the current year. The power programme, particularly in the Bengal-Bihar area, will enable the use to be made of by-product coal from the coal washeries.

32. The Railways carried 194 million tonnes of originating traffic in 1963-64 and were able to meet in full the requirements of coal and steel industries. A further expansion of around 25 per cent is expected over the next two years, and goods traffic requirements should continue to be met. The increase in railway capacity is being achieved by larger production of wagons, increased use of diesel and electric locomotives and expansion and doubling of track. The expansion in the capacity for the manufacture of commercial road vehicles to 45,000 under projects now being implemented will also augment the availability of transport.

33. While mild steel production may rise only marginally during 1964-65, there should be a substantial increase to around 5.8 million tonnes of finished steel in 1965-66. The equipment for the expansion programmes of the public sector steel plants has already been ordered, and by 1967-68 the industry will have a capacity of 7 million tonnes of finished steel. The arrangements for financing the expansion plans of the private sector units are under consideration. A company has been formed for the implementation of the Bokaro Project. Certain categories of steel, and particularly flat products, will continue to be in short supply till additional production is available from Rourkela and from Bokaro. While progress in the field of special steels was initially slow, the projects under implementation should produce 50,000 tonnes in the last year of the Third Plan and 75,000 tonnes by 1967-68. Aluminium production, which was 42,000 tonnes in 1962-63, is expected to be around 73,000 tonnes by 1965-66.



34. The expansion of cement output is now based on the use of indigenous equipment. The capacity of the industry is expected to rise by more than a third during the next two years. The cement machinery manufacturing industry can now produce about ten standard cement plants of 200,000 tonnes each year. Reference has been made earlier to the manufacture of sugar plant. Capacity has also been installed for the manufacture of two paper plants per year with a capacity of producing 50 tonnes of paper per day.

35. The heavy machinery manufacturing projects in the public sector will produce equipment needed by the capital goods industries. The Heavy Engineering Corporation has ordered equipment worth around Rs. 67 crores for its heavy machine building, foundry forge, heavy machine tool and coal mining machinery projects, and machinery worth around Rs. 39 crores has arrived. Trial production has begun in the Heavy Machine Building Plant and the Mining Machinery Plant will be ready for commercial production in the coming year. While the Heavy Electrical Equipment Factory at Bhopal has expanded production, work has started on three more heavy electrical equipment manufacturing units; and the capacity for the manufacture of heavy electrical equipment from the projects under implementation is expected to amount to Rs. 20 crores in 1965-66 and Rs. 40 crores in 1967-68. Machine tool output will also rise; taking both public and private sectors together, the capacity resulting from projects in hand will be Rs. 25 crores in 1965-66 and Rs. 35 crores in 1967-68.

36. The petroleum refining capacity is expected to rise over the next two years from the current level of 6.8 million tonnes to 17.3 million tonnes. The Barauni Refinery will come into production during 1964-65. The erection of the refinery in Gujarat should be completed in 1964-65 and the Cochin unit should come into production in 1965-66. Plants for two more refineries are being examined as part of the advance action for the Fourth Plan. The expansion of the refinery capacity will make possible the development of a petro-chemicals industry, which will provide a base for the production of fertilisers, synthetic rubber, plastics and many other valuable products. Two petrol-chemical complexes are proposed to be established in the near future in Bombay and Gujarat. Taking account also of production which may be based on coal, the capacity for the manufacture of nitrogenous fertilisers (in terms of nitrogen), of projects completed or in hand will amount to 820,000 tonnes by 1967-68. In a number of other industries, there will be significant increases in output during 1964-65 as the value of indigenous and imported equipment installed during 1963-64 was much larger than in the previous year.

37. As a result of the expansion of capital goods output and of the production of import substitutes such as fertilisers and steel, the import content of economic development is expected to be reduced. Nevertheless, there is urgent need for further increases in export earnings, in order to permit larger imports of components and raw materials to make full use of industrial capacity and to reduce the dependence on external assistance. The increase in exports during the last two years, in spite of the failure of agricultural output to expand adequately and the strains resulting from the Emergency, has been noteworthy. Further increases in earnings from exports can be secured only if the increases in domestic production of the commodities marketable abroad are accompanied by a measure of restraint on their consumption at home. It should be possible to export commercial crops and their manufactures in larger quantities. The development of mining and transport facilities for iron

ore should also result in a substantial expansion of exports during the next two years. In the long run, engineering products can make an important contribution, but in the next two or three years, the additional amounts earned from such exports can only be modest.

38. As already mentioned, there is also need for continuing vigilance in regard to prices. The current trend of wholesale and consumer prices reflects the growing pressure, to some extent inevitable in a developing economy, on supplies of foodgrains and other essential commodities. Not only is the consumer demand increasing, but with the rising standard of living, there is a shift in the pattern of consumption from coarse grains to rice and wheat and from coarse and medium cloth to fine and superfine cloth and art silk and rayon fabrics. While the ultimate solution to the price problem lies only in an increase in production, and an undue proliferation of controls of a kind which may impede growth must be avoided, continued action will be needed to avoid excess demand and to strengthen the framework of governmental regulation over the processes of distribution.

39. It needs to be recalled at this juncture that the rate of population increase, which was around 2 per cent per annum in the decade of the fifties has since been larger, and is now in the neighbourhood of 2·3 per cent. Therefore, even a moderate rate of increase in *per capita* incomes can be achieved only if full use is made of the potential for raising agricultural and industrial outputs. In itself, the steady decline in death rates which has been responsible for the higher rate of population growth is a matter for great satisfaction as it signifies an improvement in national well-being which is not fully reflected in—and is indeed obscured by—statistics of *per capita* incomes. Even so, with the rate of population increase approaching what is a very high level by any standards, the family planning programme has assumed the greatest of urgency and importance.

40. The overall picture is one of promise of rising growth rates in the basic fields of industry, though these rates at present are somewhat below the expectations in the Plan. It will be necessary in the months and years to come to strengthen the forces which contribute to higher levels of growth not only in industry but also, and more fundamentally, in agriculture.

# AGRICULTURAL PRODUCTION

