I INTRODUCTION

The Economic Survey for 1968-69 expressed the hope that with the problems of food, inflation and external viability being overcome, it should be possible for the economy to turn to the task of long-term growth in 1969-70. There is every likelihood of the target of an overall growth rate of 5 to 5½ per cent per annum being achieved in 1969-70, the first year of the Fourth Plan. Total foodgrains production which had declined from 95.1 million tonnes in 1967-68 to 94.0 million tonnes in 1968-69 should increase considerably in the current year. The output of commercial crops such as raw cotton and oil seeds, while still inadequate in relation to total needs, has registered a significant recovery from the low level of the previous year. The recovery in the output of jute has been substantial; and in sugar, 1969-70 should mark a further increase over the high level already reached in 1968-69. Industrial production which had increased by 6·4 per cent in 1968 is expected to register a further increase of 7·5 per cent in 1969.

2. The combined budgets of the Centre and the States for 1969-70 had envisaged an increase in developmental outlay of the order of 10 per cent. This outlay was contingent on additional resource mobilisation both at the Centre and in the States. Substantial measures of additional taxation were incorporated in the Central budget presented last year; and in the course of the year the resources available to the State Governments were augmented not only by some measures of taxation introduced by them but also by larger transfers from the Centre and substantially larger borrowing from the market. The ratio of total tax revenues to national income which had declined during the years of the drought (from 14.2 per cent in 1965-66 to 12.4 per cent in 1967-68) recovered to 12.8 per cent in 1968-69 and should reach approximately 13 per cent in 1969-70. It is not possible at this stage to indicate with any degree of precision the actual step-up in developmental outlays during the current year. But there is no doubt that developmental activities in the public sector have been accelerated. Private investment activity in agriculture, small industry, and construction has been buoyant; and while there is so far no clear indication of an increase in private investment expenditure in organised industry, there has been a distinct revival of interest in new investment activity in this sector.

3. The average level of prices during the twelve months ended December 1969 was higher by 2.1 per cent as compared to 1968. There was an unusual increase in prices between January and July 1969, followed by a decline from August to mid-November. More recently there has been renewed upward pressure and the monthly average of wholesale prices during January 1970 was 6·8 per cent higher than a year ago. With the good crop conditions during the current year, it

should be possible to maintain the climate of relative price stability which has now prevailed over the past two years. But it would require continued emphasis on supporting higher developmental outlays with the mobilisation of genuine resources, vigilance in regard to bank credit and selective but timely increase in imports to supplement domestic availablities.

4. The year 1968-69 had witnessed dramatic improvement in India's external account. Imports had declined in that year by 7·3 per cent and exports had increased by 13·5 per cent with the result that the trade deficit was reduced from Rs. 809 crores to Rs. 502 crores.* Total foreign exchange reserves increased by Rs. 38·1 crores in 1968-69, after a net repayment of Rs. 58·5 crores to the International Monetary Fund. During the current year, the trade gap is likely to be narrowed further and foreign exchange reserves should register once again an increase of the order of Rs. 50 to 75 crores, after providing for a net repayment of Rs. 125·2 crores to the International Monetary Fund and without taking into account the accretion of Rs. 94·5 crores by way of Special Drawing Rights. However, the improvement in the trade account during the current year is the result of a further decline in imports rather than of any significant increase in exports. With the recovery in industrial production, the demand for the import of raw materials and components is bound to grow as is evidenced by the large increase in import licences issued for this purpose in the current year. In regard to machinery imports also despite impressive gains in import replacement, there is bound to be an upward trend as investment activity accelerates beyond the initial stage of project preparation, land acquisition and construction of factory buildings which require little imports as compared to plant and machinery. Continued dynamism in exports is thus necessary to match increases in imports, quite apart from the need to meet growing debt repayments and progress towards self-reliance.

5. While the overall economic situation in 1969-70 has thus been satisfactory, the developments during the year have, however, emphasized the need for further remedial action on a number of fronts. It is clear, for example, that the spread of new technology which is well advanced in the case of wheat and promising in the case of rice, cannot be sustained unless greater attention is paid to coarse grains, pulses and commercial crops in general and to dry farming areas in particular. This requires co-ordinated action regarding research, land consolidation, land reforms as well as the spread of ancillary activities and credit and marketing facilities. The effort to spread the benefits of better agricultural techniques is thus necessary not only for avoiding social tensions and ensuring social justice but also for sustained increases in production.

6. The experience of the past two or three years also suggests that as the Indian economy operates on a very narrow margin worrisome

*These figures differ from the balance of payments data given in the section on Balance of Payments and Foreign Aid.

shortages develop with only a marginal shortfall in supplies or a marginal increase in demand. We have already noted that the behaviour of the prices of agricultural raw materials and of some foodgrains, such as pulses, underlines the need for specific action for increasing productivity and yields of these vital crops if the overall stability in prices made possible by higher yields per acre for major cereals, such as wheat and rice, is not to be jeopardised. Similarly, despite the diversification of the industrial structure and the background of excess capacity in a large number of industries for the past few years, the need for expanding industrial capacity selectively to keep ahead of demands which will and must inevitably grow cannot be overlooked.

7. It is also clear that a good deal of the capacity that exists in the country remains unutilized for reasons other than a lack of demand such as labour troubles, lack of proper maintenance or the absence of small but crucial technical improvements or balancing investment. Attention to these problems becomes more urgent as demand revives if the need for creating additional capacity *de novo* is to be minimised.

8. Shortages have already begun to appear in basic materials such as steel, staple fibre and aluminium. Similar shortages in regard to consumer goods industries can be avoided only by timely action to increase capacity in the near future. In some commodities, such as fertilizers, the surpluses that have temporarily emerged are, in fact, an index of the need for greater promotional activity. The improvement and expansion of capacity for fertilizer production in the country remain, therefore, matters of the highest priority. Recent trends in exports have also once again emphasised the need for continued effort for achieving a steady growth in export earnings. The improvement in foreign exchange reserves, while welcome, has yet to reach proportions which can ensure a reasonable degree of comfort against inevitable fluctuations in our balance of payments. In the fiscal sphere what has been achieved over the past year or two still falls short of the position that was already reached some years back. Recent events have also highlighted the need for a credit policy which is promotional in its accent without ceasing to be vigilant about speculative pressures or unrewarding uses. In short, our experience over the past year or two shows that while the prospects for continued economic growth are good, the opportunities available cannot be fully seized without continued vigorous efforts in a number of directions including export promotion, mobilisation of resources, a healthy climate for investment and for improvement of productivity and the involvement of larger and larger sections of the people in the process of development.

(Table on next page)

TABLE I

Selected Economic Indicators

	1965-66	1966-67	1967-68	1968-69	1969-70
	(Percentage change over previous year)				
1	2	3	4	5	6
1. National income at constant prices	—5·6	+0·9	+8·9	+1·8*	+5—5·5†
2. Agricultural production .	—17·1	—0·4	+22·3	—1·4	..
3. Foodgrains production .	—19·4	+3·1	+28·0	—1·1	..
4. Industrial production .	+5·1	+0·3	+0·5	+6·3	+7·5**
5. Electricity generated .	+10·3	+9·7	+12·6	+14·1	+12·9**
6. Wholesale prices .	+7·6	+13·9	+11·6	—1·1	+2·6††
7. Money supply . . .	+10·7	+8·3	+9·1	+8·1	+11·2§
8. Imports	+4·4	—6·3	—3·4	—7·3	—19·1††
9. Exports	—1·3	—8·9	+3·6	+13·5	+1·5††
10. Freight carried by Railways	+9·7	—0·3	+1·9	+5·3	+6·1**

*Quick estimate.

†Estimated.

**April-September, 1969 compared to April-September, 1968.

††April-December, 1969 compared to April-December, 1968.

§December 26, 1969 compared to December 27, 1968.